No. 06-____

IN THE

Supreme Court of the United States

MACTEC, INC.,

Petitioner,

v.

STEVEN GORELICK,

Respondent.

On Petition For A Writ of Certiorari To The United States Court of Appeals for the Tenth Circuit

PETITION FOR A WRIT OF CERTIORARI

FRANK TRADEWELL DAVIS, JR.
Counsel of Record
BRUCE PERRIN BROWN
MCKENNA LONG & ALDRIDGE LLP
303 Peachtree Street, NE
Atlanta, GA 30308
(404) 527-4000

Attorneys for Petitioner

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

QUESTIONS PRESENTED

1. Whether arbitration agreements may alter the judicial review provisions of the Federal Arbitration Act, 9 U.S.C. § 1 *et seq.*, including in this case eliminating any right to appeal from an adverse decision of the district court, an issue as to which the courts of appeal are in clear and acknowledged conflict.

2. Whether the interpretation of such an agreement purporting to alter federal statutory procedures is governed by federal common law, as the Tenth Circuit presumed in this case, or the state law governing the interpretation of the agreement, as the Fifth Circuit has determined.

RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Petitioner MACTEC, Inc. is a privately held corporation. No entity currently owns more than 50% of the stock of MACTEC, Inc. Wachovia Capital Partners 2002, LLC, which owns more than 10% of MACTEC, Inc., is an indirect subsidiary of Wachovia Corp., a publicly traded company.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED	i
RULE 29.6 CORPORATE DISCLOSURE STATEMENT	ii
TABLE OF AUTHORITIES	v
OPINIONS BELOW	1
JURISDICTION	1
STATUTE INVOLVED	1
STATEMENT	1
A. The Dispute and the Arbitration	1
B. The District Court Confirmation	3
C. The Tenth Circuit Dismisses Appeal	4
REASONS FOR GRANTING THE PETITION	5
I. The Petition Should Be Granted To Resolve The Clear, Acknowledged, And Persistent Conflicts Within The Federal Courts Of Appeal As To Whether Parties May, In Pre-Dispute Agreements, Alter The Standard For Judicial Review Of Arbitration Decisions	5
A. The Legal Context for the Conflict Below	6
B. The Conflict Among the Circuits	10
C. The Circuit Courts' Conflict Can and Should be Resolved by the Granting of this Petition	17

II. The Petition Should Be Granted Because The Tenth Circuit's Approach Allowing Private Parties To Alter The Federal Statutory Provisions, Particularly The Right To Appeal, Is Directly Contrary To The Plain Language Of The FAA 20

A. Plain Language of the FAA 21

B. Decision Cannot be Based on "Federal Policy" Grounds 22

III. This Petition Should Be Granted Because The Tenth Circuit Applied Federal, Rather Than State, Law To Interpret This Agreement in Conflict With The Decisions Of The Fifth Circuit And This Court 24

CONCLUSION 27

APPENDIX

TABLE OF AUTHORITIES

Cases

Board of Governors of the Federal Reserve System v. Dimension Financial Corp., 474 U.S. 361 (1986) 23

Bowen v. Amoco Pipeline Co, 254 F.3d 925 (10th Cir. 2001) 4, 8, 13, 16, 22

Bradford Dyeing Ass'n, Inc. v. J. Stog Tech GMBH, 765 A.2d 1226, 1229 (R.I. 2001) 9

Brucker v. McKinlay Transp., Inc 454 Mich. 8, 557 N.W.2d 536, 540 (1997) 16

Chicago Typographical Union No. 16 v. Chicago Sun-Times Inc., 935 F.2d 1501, 1504-05 (7th Cir. 1991) 14

Crowell v. Downey Community Hospital Foundation, 95 Cal. App. 4th 730, 733, 115 Cal. Rptr. 2d 810, 812 (2002) 8

Dick v. Dick, 210 Mich. App. 576, 534 N.W.2d 185, 191 (1995) 9

Gateway Technologies, Inc. v. MCI Telecommunications Corp., 64 F.3d 993, 997 (5th Cir. 1995) ..... passim

Gilmer v. Interstate/Johnson Lane Corp., 500 U.S. 20, 24 (1991) 6

Harrell v. Dove Mfg. Co., 234 Or. 321, 381 P.2d 710 (1963) 9

Harris v. Parker College of Chiropractic, 286 F.3d 790 (5th Cir. 2002) 7, 11, 25

Hoeft v. MVL Group, Inc., 343 F.3d 57, 60 (2d. Cir. 2003) 8, 13, 14, 17

Howsam v. Dean Witter Reynolds, Inc., 537 U.S. 79, 87 (2002) 26
Huizar v. Allstate Ins. Co., 952 P.2d 342 (Colo. 1998) 7, 15
John T. Jones Constr. Co. v. City of Grand Forks, 665 N.W.2d 698, 704 (N.D. Sup. Ct. 2003) 7, 16
Kyocera Corp. v. Prudential-Bache Trade Services, Inc., 341 F.3d 987 (9th Cir. 2003) 8, 12, 13, 17
Moses H. Cone Memorial Hospital v. Mercury Construction Corp., 460 U.S. 1, 24 (1983) 26
New England Utilities v. Hydro-Quebec, 10 F. Supp. 2d 53, 61 (D. Mass. 1998) 7, 12
Northern Indiana Commuter Transp. Dist. v. Chicago, et al., 744 N.E.2d 490, 495 (Ind. Ct. App. 2001) 8
Oakland-Alameda County Coliseum Auth. v. CC Partners, 101 Cal. App. 4th 635, 124 Cal. Rptr. 2d 363, 370-71 (2002) 15
Pratt v. Gursey, Schneider & Co., 95 Cal. Rptr. 2d 695 (Cal. Ct. App. 2000) 8
Prescott v. Northlake Christian School, 369 F.3d 491, 498 (5th Cir. 2004) 11, 17, 25
Primerica Financial Services, Inc. v. Wise, 217 Ga. App. 36, 38, 456 S.E.2d 631, 633 (1995) 8
Roadway Package System, Inc. v. Kayser, 257 F.3d 287, 292 (3d Cir. 2001) 8, 11
Schoch v. InfoUSA, Inc., 341 F.3d 785 (8th Cir. 2003) 7, 15
Southland Corp. v. Keating, 465 U.S. 1, 12 (1984) 26
State ex rel. Teaching Assistants Ass'n v. University of Wisconsin-Madison, 96 Wis.2d 492, 499, 292 N.W.2d 657, 660 (1980) 9

Syncor Int'l. Corp. v. Leland, 120 F.3d 262 (Table), No. 96-2201, 1997 WL 452245, at *6 (4th Cir. Aug. 11, 1997) 8, 11
Tanox, Inc. v. Akin, Gump, Strauss, Hauer & Feld, L.L.P. 105 S.W.3d 244 (Tx. App. 2003) 12
Trident Center v. Connecticut General Life Ins. Co., 847 F.2d 564, 569 (9th Cir. 1988) 2
Trombetta v. Raymond James Financial Services, Inc., 2005 WL 1595280, 71 Pa. D. & C. 4th 12 (2005) 7
TVA v. Hill, 437 U.S. 153, 194 (1978) 22
UHC Management Co. v. Computer Sciences Corp., 148 F.3d 992, 995 (8th Cir. 1998) 8, 15
United States v. Bass, 404 U.S. 336, 339 (1971) 22
VoiceStream Wireless Corp. v. U.S. Communications, Inc., 912 So.2d 34 (Fla. Dist. Ct. App. 2005) 8, 15
Volt Information Sciences, Inc. v. Board of Trustees of Leland Stanford Junior University, 489 U.S. 468 (1989) 9, 10, 13, 14, 25

Statutes

28 U.S.C. § 1254(1) 1
Federal Arbitration Act, 9 U.S.C. § 1 *et seq.* ..... passim

Legislative History

H.R. Rep. No. 96-68, at 2 (1924) 7, 26

Treatises

21 Richard A. Lord, WILLISTON ON CONTRACTS, – Section 57:130, at p. 638 (4th ed. 2001) 15

Periodicals

Sarah R. Cole, *Managerial Litigants? The Overlooked Problem of Party Autonomy in Dispute Resolution*, 51 Hastings L. J. 1199 (2000) 18

Kenneth M. Curtin, *An Examination of Contractual Expansion and Limitation of Judicial Review of Arbitral Awards*, 15 Ohio St. J. on Disp. Resol. 337, 370 (2000) 19

Felix Frankfurter, *Some Reflections on the Reading of Statutes*, 47 Col. L. Rev. 527, 543 (1947) 22

Eric Van Ginkel, *Expanded Judicial Review Revisited: Kyocera Overturns LaPine*, 4 Pepp. Disp. Resol. L.J. 47, 59 (2003) 19

Having ADR Conversations Across Cultures, 22 ALTHCL 111 (2004) 20

Di Jiang-Schruerger, *Perfect Arbitration = Arbitration - Litigation*, 4 Harv. Negot. L. Rev. 231, 232 (1999) 18

Bradley King, *Through Fault of Their Own -- Applying Bonner Mall's Extraordinary Circumstances Test to Heightened Standard of Review Clauses*, 45 B.C. L. Rev. 943 (2004) 19

Milana Koptsiovsky, *A Right to Contract for Judicial Review of an Arbitration Award: Does Freedom of Contract Apply to A. bitration Agreements?* 136 Conn. L. Rev. 609 (2004) 19

Rena Kreitenberg, *A Cloud Over Arbitration Decision Appeals, A State Court Ruling Changes the Calculus when Considering Contractual Arbitration Clauses*, 25 L.A. Law 44 (2002) 20

Amos J. Sheffield, *Kyocera Corp v. Prudential-Bache Trade Services: The Scope of Federal Judicial Review Over Arbitration Cases -- Federal*

Arbitration Act versus Contract, 27 Am. J. Trial Advoc. 423 (2003) 19

Hans Smit, *Contractual Modification of the Scope of Judicial Review of Arbitral Awards*, 8 Am. Rev. Int'l Arb. 147, 150 (1997) 11, 18

Kevin A. Sullivan, *The Problems of Permitting Expanded Judicial Review of Arbitration Awards Under the Federal Arbitration Act*, 46 St. Louis U. L.J. 509 (spring 2002) 19

Heather White, *"Clear and Unmistakable:" The Third Circuit's Specificity Requirement for Contractual Waiver of the FAA*, 1 J. Am. Arb. 285 (2002) 20

Stephen P. Younger, *Agreements to Expand the Scope of Judicial Review of Arbitration Awards*, 63 Alb. L. Rev. 241, 261 (1999) 19

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-18a) is reported at 427 F.3d 831. The opinion of the districty court (App., *infra*, 19a-40a) is unreported. The award of the arbitrator is reproduced at App., *infra*, 41a-43a.

JURISDICTION

The court of appeals entered its judgment on October 26, 2005. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED

Section 16 of the Federal Arbitration Act, 9 U.S.C. § 16, states in part that "[a]n appeal may be taken from (1) an order ... confirming or denying confirmation of an award or partial award."

STATEMENT

A. The Dispute and the Arbitration

This case arises out of a multi-million dollar dispute over the meaning of a short amendment (the "Revision") to an agreement between Petitioner MACTEC, Inc. ("MACTEC") and respondent Steven Gorelick. Gorelick contended that MACTEC, as a result of the Revision, owed Gorelick $3,000 per use of any type of groundwater remediation well, even public domain technology. MACTEC claimed the Revision related only to the two patented technologies specifically mentioned in the Revision.

Three years after the execution of the Revision, Gorelick initiated arbitration pursuant to the arbitration

clause in the original agreement. At the June 10, 2002 hearing on the matter, MACTEC repeatedly attempted to introduce evidence supporting MACTEC's interpretation of the Revision, including written evidence showing Gorelick's acquiescence for almost three years to MACTEC's construction of the Revision, the absurdity of a construction of the Revision under which MACTEC would have agreed to pay Gorelick $3,000 for each remediation well, even though MACTEC's total gross profit per remediation well was about $200, and other evidence. All of the evidence proffered by MACTEC was admissible under California law, which governed the Revision and the arbitration.[1] Under California law, there is no contract that is "impervious to attack by parol evidence . . . the court *must* consider extrinsic evidence of possible ambiguity. *Trident Center v. Connecticut General Life Ins. Co.*, 847 F.2d 564, 569 (9th Cir. 1988) (applying California law) (emphasis added).

At the opening of the hearing, however, the single arbitrator announced that, contrary to California law, he would refuse to consider any extrinsic evidence of possible ambiguity, ruling that since he believed the agreement was plain and unambiguous extrinsic evidence was inadmissible. He said during opening arguments, "We're not going to get into what intentions were . . . because it's a contract case."[2] The arbitrator repeated this position throughout the hearing.

---

[1] Section 11 of the agreement provided that "[t]his Agreement shall be governed by the laws of the State of California in every respect, including but not limited to validity, interpretation and performance and breach."

[2] Hearing Tr. at 22, Ct. App. App. at 210.

The effect of the arbitrator's ruling was to exclude virtually all of MACTEC's evidence relating to liability. After what became a short hearing, the arbitrator issued a written arbitration award in favor of Gorelick, awarding him $4.5 million in damages and declaring that Gorelick was entitled in the future to payment of about $3,000 per remediation well, in perpetuity, including wells using technology in the public domain. App., *infra*, 41a.

B. The District Court Confirmation

On July 11, 2002, MACTEC filed an application with the United States District Court for the District of Colorado to vacate the arbitration award, and Gorelick filed a motion to confirm the award. MACTEC argued, *inter alia*, that the arbitrator plainly excluded "pertinent and material evidence" in violation of Section 10(a)(3) of the FAA. In a written order, the district court granted Gorelick's motion and confirmed the award, holding with respect to the arbitrator's exclusion of evidence "MACTEC has shown only that the arbitrator may have misapplied the law, but an arbitrator's misinterpretation or misapplication of the law is not grounds for vacating an arbitration award." App., *infra*, 35a. The district court expressly anticipated that its decision would be reviewed by the court of appeals, stating on the record: "the way to get this thing done is to get a judgment entered and get on to the Court of Appeals, and let them worry about it."[3]

[3] Transcript of 14 August 2003 hearing at 6.

C. The Tenth Circuit Dismisses Appeal

MACTEC appealed to the Tenth Circuit. Gorelick moved to dismiss the appeal based on the following sentence in the arbitration clause:

> Judgment upon the award rendered by the arbitrator shall be final and nonappealable and may be entered in any court having jurisdiction thereof.

The Tenth Circuit granted Gorelick's motion and dismissed the appeal.

In its opinion, the Tenth Circuit first considered whether private contract clauses altering federal judicial review of arbitration decisions should be enforceable. In an earlier decision, *Bowen v. Amoco Pipeline Co.*, 254 F.3d 925 (10th Cir. 2001), the Tenth Circuit had refused to enforce a contract provision that would have expanded the scope of judicial review. In the case below, the Tenth Circuit distinguished *Bowen*, holding that, as in *Bowen* "'the key question is whether the alternative rule conflicts with the federal policies furthered by the FAA.'" App., *infra*, 11a. The Tenth Circuit held that, unlike the expanded judicial review in *Bowen*, the total elimination of appellate review did not conflict with the federal policies furthered by the FAA. App., *infra*, 12a.

The court then turned to consider whether the parties had expressed their intent in the contract to eliminate appellate review with the requisite clarity. MACTEC had argued that this issue was governed by California law, pursuant to which the clause would be unenforceably vague or at least require an evidentiary hearing. In its opinion, the Tenth Circuit did not address California law and instead held, as a matter of federal law, that the clause was

sufficiently clear and unequivocal to be enforced. App., *infra*, 14a.

REASONS FOR GRANTING THE PETITION

I. The Petition Should Be Granted To Resolve The Clear, Acknowledged, And Persistent Conflicts Within The Federal Courts Of Appeal As To Whether Parties May, In Pre-Dispute Agreements, Alter The Standard For Judicial Review Of Arbitration Decisions.

For at least the past six years, the federal circuit courts of appeal have been in clear and acknowledged conflict over whether and to what extent parties may, in pre-dispute agreements, alter federal statutory provisions governing judicial review of arbitration decisions. One group of jurisdictions holds that parties may do so, another camp holds that parties may not do so, and the Tenth Circuit holds that the result depends upon whether the parties are altering the federal statutory scheme by limiting the scope of judicial review, which is permissible, or expanding the scope of judicial review, which is impermissible. The issue is of nationwide importance to a vast number of arbitration cases and has been repeatedly addressed by scholars and members of the bar who have urged that the Court resolve the issue.

In Part A, MACTEC will describe the legal context within which this conflict has arisen. In Part B, MACTEC will analyze the three conflicting groups of cases. In Part C, MACTEC will explain why it is important for the Court to take this case to resolve this conflict once and for all.

A. The Legal Context for the Conflict Below

As this Court is well aware, Congress passed the Federal Arbitration Act in 1925 "to reverse the longstanding judicial hostility to arbitration agreements that had existed at English common law and had been adopted by American courts." *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 24 (1991). The FAA does not, however, allow district courts to "rubber stamp" arbitration awards, but instead requires district courts to overturn arbitration decisions that do not meet minimum standards of due process and substantive integrity. 9 U.S.C. § 10(b). For example, the FAA requires district courts to vacate arbitration awards that were procured by fraud or where pertinent and material evidence is excluded. *Id.* In addition, the FAA was amended in 1988 to reaffirm specifically the parties' right to appeal from adverse final decisions of the district courts in cases brought under the FAA. 9 U.S.C. § 16.

In enacting the FAA, Congress' willingness to reverse judicial hostility toward arbitration awards was linked to, and limited by, the procedural protections granted to those participating in arbitration. Congress balanced competing concerns: to make arbitration relatively efficient and final, judicial review had to be limited; to give the arbitration process legitimacy, and to protect against wholly unfair and unlawful results, minimum procedural protections had to be maintained, including the right to appeal from an erroneous final decision by the court enforcing the award. The short House Report on the bill which became the FAA explains this balance succinctly:

> The bill declares simply that such agreements for arbitration shall be enforced, and provides a procedure in the Federal courts for their enforcement. The procedure is very simple, following the lines of ordinary motion

> procedure, reducing technicality, delay and expense to a minimum *and at the same time safeguarding the rights of the parties.*

H.R. Rep. No. 96-68, at 2 (1924) (emphasis added).

The conflict in the courts below arises out of arbitration clauses that attempt to upset this balance struck by Congress. Over the past decade, the variations in ways that these clauses would change the judicial review regime has proliferated, and spawned substantial litigation nationwide over their enforceability. Examples of some of the disparate ways parties have attempted to modify, expand or eviscerate statutory provisions for judicial review are set forth below:

*clause providing for "de novo" trial court review, *e.g., Schoch v. InfoUSA, Inc.*, 341 F.3d 785 (8th Cir. 2003); *Harris v. Parker College of Chiropractic*, 286 F.3d 790 (5th Cir. 2002); *see also Trombetta v. Raymond James Financial Services, Inc.*, 2005 WL 1595280, 71 Pa. D. & C. 4th 12 (2005);[4] *John T. Jones Construction Co. v. City of Grand Forks*, 665 N.W.2d 698 (N.D. 2003); *Huizar v. Allstate Ins. Co.*, 952 P.2d 342 (Colo. 1998);

*clause providing for judicial review for "error of law," *see, e.g., Gateway Technologies, Inc. v. MCI Telecommunications Corp.*, 64 F.3d 993, 997 (5th Cir. 1995); *New England Utilities v. Hydro-Quebec*, 10 F. Supp. 2d 53, 61 (D. Mass. 1998); *see also Northern Indiana Commuter*

---

[4] The state cases cited in this section of the Petition involve the enforcement of agreements that would change state statutes governing judicial review of arbitration decisions, not the FAA. These cases illustrate the widespread practice of attempting to re-write the standards for judicial review of arbitration awards.

Transp. Dist. v. Chicago, et al., 744 N.E.2d 490, 495 (Ind. Ct. App. 2001);

*clause providing for judicial review for "error of legal reasoning," *e.g., Syncor Int'l Corp. v. McLeland*, 120 F.3d 262 (Table), No. 96-2261, 1997 WL 452245, at *6 (4th Cir. Aug. 11, 1997);

*clause providing for judicial vacatur "on the grounds that the award is not supported by the evidence," *Bowen v. Amoco Pipeline Co.*, 254 F.3d 925, 930 (10th Cir. 2001);

*clause providing for judicial review under the "substantial evidence" standard, *e.g., Kyocera Corp. v. Prudential-Bache Trade Services, Inc.*, 341 F.3d 987, 991, 992, (9th Cir. 2003) (en banc); *see also Crowell v. Downey Community Hospital Foundation*, 95 Cal. App. 4th 730, 733, 115 Cal. Rptr. 2d 810, 812 (2002);

*clause providing for judicial vacatur under "any evidence" standard, e.g., *Primerica Financial Services, Inc. v. Wise*, 217 Ga. App. 36, 38, 456 S.E.2d 631, 633 (1995);

*clause eliminating judicial review entirely, *Hoeft v. MVL Group, Inc.*, 343 F.3d 57, 60 (2d Cir. 2003); *see also VoiceStream Wireless Corp. v. U.S. Communications, Inc.*, 912 So.2d 34 (Fla. Dist. Ct. App. 2005); *Pratt v. Gursey, Schneider & Co.*, 95 Cal. Rptr. 2d 695 (Cal. Ct. App. 2000);

*clause incorporating by reference standard specified by governing state's law, *e.g., Roadway Package System, Inc. v. Kayser*, 257 F.3d 287, 292 (3d Cir. 2001); *UHC Management Co. v. Computer Sciences Corp.*, 148 F.3d 992, 995 (8th Cir. 1998);

*clause excluding judicial review based on procedural methods adopted by the arbitrator but permitting judicial review of substantive issues, *Dick v. Dick*, 210 Mich. App. 576, 534 N.W.2d 185, 191 (1995);

*clause providing judicial review based on the merits of an arbitrator's decision, *Harrell v. Dove Mfg. Co.*, 234 Or. 321, 381 P.2d 710 (1963);

*clause providing judicial review based on any conclusion of law, "*provided, however*, the findings of fact by the arbitrator shall be absolute," *Bradford Dyeing Ass'n, Inc. v. J. Stog Tech GMBH*, 765 A.2d 1226, 1229 (R.I. 2001) (emphasis in original);

*clause providing judicial review for "prohibited practice case[s]," *State ex rel. Teaching Assistants Ass'n v. University of Wisconsin-Madison*, 96 Wis. 2d 492, 499, 292 N.W.2d 657, 660 (1980).

All of these arbitration clauses share the same purpose: to upset, in one way or the other, the balance between simplicity and fairness struck by Congress in the FAA.

The closest this Court has come to addressing this issue is *Volt Information Sciences, Inc. v. Board of Trustees of Leland Stanford Junior University*, 489 U.S. 468 (1989). In *Volt*, the parties entered into a contract with an arbitration clause and a separate choice of law clause providing that the contract "shall be governed by the law of the place where Project was located," California. Volt filed for arbitration. Stanford countered with a lawsuit in California Superior Court, seeking to stay the arbitration under California law, pending resolution of related claims against parties not subject to the arbitration agreement. The Superior Court granted the motion to stay, holding that California law on the

issue was not pre-empted by the FAA, and the California appellate courts affirmed.

This Court affirmed, holding that the FAA did not preempt the parties' agreement concerning the manner in which the arbitration was to be conducted. "There is no federal policy favoring arbitration under a certain set of procedural rules; the federal policy is simply to ensure the enforceability, according to their terms, of private agreements to arbitrate." 489 U.S. at 476.

As discussed below in Part B, the courts of appeal are divided over whether *Volt's* holding allowing parties to fashion their own *pre-award* arbitration procedures should be extended to allowing parties to change the *post-award* judicial review provisions of the FAA. As discussed in Part II, there are powerful arguments for not doing so: the FAA itself allows parties to decide privately whether and how to arbitrate their dispute, but does not allow parties to change the statutory standards for public judicial review.

B. The Conflict Among the Circuits

1. Courts enforcing agreements altering judicial review.

Courts enforcing arbitration agreements altering the scope of judicial review provided by the FAA include the Third, Fourth, and Fifth Circuits, a district court in Massachusetts, and the Texas Court of Appeals. The reasoning of these cases is along the following lines: the FAA is a manifestation of congressional intent favoring the enforcement of private parties' agreements to resolve disputes in an alternative form, specifically arbitration. Therefore, allowing parties to agree to an alternative *judicial*

implementation of arbitration awards is consistent with this congressional policy and should be enforced.[5] The typical exposition of this approach is set forth in the Fifth Circuit's decision in *Gateway Technologies, Inc. v. MCI Telecommunications Corp.*, 64 F.3d 993, 997 (5th Cir. 1995). In *Gateway,* the parties had agreed that the district court would review the arbitration decision for "errors of law," a less deferential standard of review than that contained in the FAA. The district court refused to enforce the provision and the court of appeals reversed. "Such a contractual modification is acceptable because, as the Supreme Court has emphasized, arbitration is a creature of contract and the FAA's pro-arbitration policy does not operate without regard to the wishes of the contracting parties."[6]

Cases following the analysis and result of the Fifth Circuit's *Gateway* case include *Roadway Package Sys., Inc. v. Kayser,* 257 F.3d 287, 293 (3d Cir. 2001) (holding that "parties may opt out of the FAA's off-the-rack vacatur standards and fashion their own"); *Syncor Int'l Corp. v. McLeland,* 120 F.3d 262 (table), No. 96-2261, 1997 WL

---

[5] Professor Hans Smit of Columbia University School of Law's Center for International Arbitration and Litigation Law, succinctly exposes the fallacy in this logic: "This argument clearly is misplaced. The circumstance that the law largely permits the parties to structure their arbitration in the manner they see fit in no way implies that the parties are also free to alter the judicial process." Hans Smit, *Contractual Modification of the Scope of Judicial Review of Arbitral Awards,* 8 Am. Rev. Int'l Arb. 147, 150 (1997). Since it is the "body politic that decides for what purpose judicial resources are to be made available," "[t]he parties agreement on that question is irrelevant, because the parties have no authority to determine how public resources are to be spent." *Id.*

[6] The Fifth Circuit has reaffirmed *Gateway* in *Harris v. Parker College of Chiropractic,* 286 F.3d 790 (5th Cir. 2002), and *Prescott v. Northlake Christian School,* 369 F.3d 491 (5th Cir. 2004).

452245, at *6 (4th Cir. Aug. 11, 1997) (district court "should have reviewed the arbitrator's legal conclusions de novo" where the arbitration agreement so stipulated); *New England Utilities v. Hydro-Quebec*, 10 F. Supp. 2d 53 (D. Mass. 1998) (recognizing conflict, holding that agreement expanding review would be enforced).[7]

2. Courts refusing to enforce agreements altering judicial review

Courts refusing to enforce agreements altering judicial review of arbitration decisions include the Second and Ninth Circuits, and language in Seventh and Eighth Circuit opinions is strongly supportive of this point of view. These cases reason that, under the FAA, parties are free to craft their own alternative dispute process *until* suit is filed in federal court, but once the public machinery of the federal court system is invoked the procedures enacted by Congress may not be altered by private agreement of the parties. This approach is typified by the Ninth Circuit's en banc opinion in *Kyocera Corp. v. Prudential-Bache Trade Services, Inc.*, 341 F.3d 987 (9th Cir. 2003). In *Kyocera*, a provision in the arbitration agreement, like the provision in *Gateway*, called for heightened judicial review. The Ninth Circuit, acknowledging the conflict with the Fifth Circuit's *Gateway* decision, held that the provision was unenforceable. The analysis of the *Kyocera* is in direct conflict with the reasoning of the Tenth Circuit in this case:

---

[7] The only reported state court decision which takes this approach under the FAA is from Texas, *Tanox, Inc. v. Akin, Gump, Strauss, Hauer & Feld, L.L.P.* 105 S.W.3d 244 (Tx. App. 2003), which held that parties may agree to expand judicial review of an arbitration beyond the scope of review set forth in the FAA.

> We agree with the Seventh, Eighth, and Tenth Circuits[8] that private parties have no power to determine the rules by which federal courts proceed, especially when Congress has explicitly prescribed those standards. Pursuant to *Volt*, parties have complete freedom to contractually modify the arbitration process by designing whatever procedures and systems they think will best meet their needs – including review by one or more appellate arbitration panels. Once a case reaches the federal courts, however, the private arbitration process is complete, and because Congress has specified standards for confirming an arbitration award, federal courts must act pursuant to those standards and no other. Private parties freedom to fashion their own arbitration process has no bearing whatsoever on their inability to amend the statutorily prescribed standards governing federal court review.

341 F.3d at 1000.

Though *Kyocera* involved a clause that would broaden the scope of judicial review, the Second Circuit in *Hoeft v. MVL Group, Inc.*, 343 F.3d 57, 66 (2d Cir. 2003), refused to enforce an agreement that would have eliminated judicial review entirely. With reasoning that is directly contrary to the reasoning in the case below, the Second

---

[8] At the time of the *Kyocera* decision, the governing Tenth Circuit case was *Bowen v. Amoco Pipeline Co.*, 254 F.3d 925 (10th Cir. 2001), noted earlier, which refused to enforce a clause expanding the scope of judicial review.

Circuit held that the parties' freedom to structure the arbitration process – recognized by this Court in *Volt* – did not and could not extend to the congressionally specified provisions for judicial review:

> Thus, just as a private agreement may vest decision-making authority in an arbitrator, so may it deprive an arbitrator of that authority. Unlike arbitration, however, judicial review is not a creature of contract, and the authority of a federal court to review an arbitral award -- or any other matter -- does not derive from a private agreement.
>
> ***
>
> Parties seeking to enforce arbitration awards through federal-court confirmation judgments may not divest the courts of their statutory and common-law authority to review both the substance of the awards and the arbitral process for compliance with § 10(a) and the manifest disregard standard.

343 F.3d at 66.

The Seventh Circuit has not ruled squarely on the issue, but has indicated its agreement with the Second and Ninth Circuits as to where the line must be drawn -- at the courthouse door. In a case under Section 301 of the Taft-Hartley Act which drew explicitly from FAA precedents, Judge Posner summarily rejected the notion that parties could by private agreement expand the scope of judicial review. *Chicago Typographical Union No. 16 v. Chicago Sun-Times Inc.*, 935 F.2d 1501, 1504-05 (7th Cir. 1991):

> An agreement to submit a dispute over the interpretation of a labor or other contract to arbitration is a contractual commitment to abide by the arbitrator's interpretation. If the parties want, they can contract for an appellate arbitration panel to review the arbitrator's award. But they cannot contract for *judicial* review of that award; federal jurisdiction cannot be created by contract.

Similarly, the Eighth Circuit has avoided a direct holding on point, but in two cases has strongly indicated its disagreement with those courts that would allow private parties to alter the scope of judicial review. *UHC Management Co. v. Computer Sciences Corp.*, 148 F.3d 992, 997 (8th Cir.1998) ("It is not clear, however, that parties have any say in how a federal court will review an arbitration award when Congress has ordained a specific, self-limiting procedure for how such a review is to occur."); *Schoch v. InfoUSA, Inc.*, 341 F.3d 785 (8th Cir. 2003) ("we again express skepticism as to whether parties can contract for heightened judicial review of arbitration awards, which would seemingly amend the FAA, crown arbitrators mini-district courts, force federal trial courts to sit as appellate courts, and completely transform the nature of arbitration and judicial review").[9]

---

[9] Many state courts have not permitted parties to alter state arbitration acts relating to judicial review. *See* 21 Richard A. Lord, WILLISTON ON CONTRACTS, Section 57:130, at p. 638 (4th ed. 2001). *See also Oakland-Alameda County Coliseum Auth. v. CC Partners*, 101 Cal. App. 4th 635, 124 Cal. Rptr. 2d 363, 370-71 (2002) (judicial review of arbitration limited to review under state law); *Huizar v. Allstate Inc. Co.*, 952 P.2d 342 (Colo. 1998) (refusing to enforce agreement providing for trial de novo of arbitral award); *VoiceStream Wireless Corp. v. U.S. Communications, Inc.*, 912 So.2d 34 (Fla. Dist. Ct. App. 2005) (clause

(footnote continued on next page)

3. *The Tenth Circuit Rule: Arbitration Clauses may limit, but not expand, judicial review*

Unlike any other sister circuit, the Tenth Circuit does not draw the line between allowing changes to the statutory scheme and not allowing such changes, but instead focuses upon whether the parties' agreement would expand or limit the scope of judicial review. In *Bowen*, the Tenth Circuit held that parties may not contractually expand the standard of judicial review to allow the district court to vacate the award for insufficient evidence. 254 F.3d at 935, 937. "Contractually expanded standards, particularly those that allow for factual review, clearly threaten to undermine the independence of the arbitration process and dilute the finality of arbitration awards." The case below can be seen as an extension of this reasoning: Congress wanted arbitration awards to be final; therefore, an agreement eliminating the right to appeal is consistent with congressional intent. The flaws in this reasoning are addressed below, but, in any event, the results in the two Tenth Circuit cases reflect the deep divisions in the federal courts of appeal on this issue.

(footnote continued from previous page)

excluding right to appeal an arbitrator's decision was in conflict with the Florida Arbitration Code and therefore unenforceable); *Brucker v. McKinlay Transp., Inc.* 454 Mich. 8, 557 N.W.2d 536, 540 (1997) ("In locating an alternative means of dispute resolution, the parties are generally free to craft whatever method they choose. All sorts of private conciliation, mediation, and arbitration devices are available. What parties are *not* able to do, however, is reach a private agreement that dictates a role for *public* institution.") (emphasis in original); *John T. Jones Constr. Co. v. City of Grand Forks*, 665 N.W.2d 698, 704 (N.D. Sup. Ct. 2003) (acknowledging conflict, holding: "We agree with the courts that hold parties to an arbitration agreement cannot contractually expand the scope of judicial review beyond that provided by statute ").

C. The Circuit Courts' Conflict Can and Should be Resolved by the Granting of this Petition

This Court should resolve this conflict by the granting of this Petition for the following reasons.

1. The conflict will not resolve itself without this Court's intervention

This is a mature conflict that is not going to resolve itself without a decision by this Court. The courts of appeal have in repeated decisions recognized their disagreement with sister circuits but have not come closer to reaching any kind of consensus. *E.g. Kyocera*, 341 F.3d at 994 (9th Cir. 2003) (acknowledging disagreement with Fifth Circuit's *Gateway* decision); *Prescott v. Northlake Christian School*, 369 F.3d 491 (5th Cir. 2004) (reaffirming *Gateway* decision). With the case at bar, the conflict becomes even more stark.

As a potential resolution to this conflict, the compromise approach of the Tenth Circuit -- which would enforce agreements limiting judicial review but not enforce agreement expanding judicial review -- is dead on arrival. No other court of appeal enforces some, but not all, of these agreements; the courts instead take an "all or nothing" approach. In its earlier decision in *Hoeft*, the Second Circuit indicated that it too might distinguish between agreements that would expand and agreements that would limit judicial review, but indicated that it would decide *both* issues exactly contrary to the Tenth Circuit -- it would not enforce agreements that limited judicial review, but it might enforce agreements that expanded judicial review. 343 F.3d at 64. The conflict between the circuits is therefore getting deeper.

2. The issue presented by this Petition is of significant importance to arbitration nationally

As this Court is well aware, arbitration is an increasingly important means of resolving civil disputes in America today. As the use of arbitration continues to grow, the fundamental fairness of the procedure as required by the FAA, and the judicial review of arbitration decisions assured by the FAA, become more important. Moreover, whether and to what extent arbitration clauses purporting to alter judicial review are enforceable affects every stage of the process -- from the decision to arbitrate at all, to the drafting of such agreements, to the process of the arbitration itself, to the judicial review of the arbitration award.

The number of reported appellate court cases addressing this specific issue -- some of which are cited above on pages 7 to 9 -- shows how widespread the practice of attempting to alter the statutory judicial review procedure has become. In addition, the importance of this issue to not only the bench and bar, but also to citizens at large, is reflected by the amount of attention, and lively debate, the issue has attracted in academic and professional literature. *See, e.g.*, Sarah R. Cole, *Managerial Litigants? The Overlooked Problem of Party Autonomy in Dispute Resolution,* 51 Hastings L. J. 1199 (2000) (analyzing conflict, proposing two-part test for resolution); Di Jiang-Schruerger, *Perfect Arbitration = Arbitration - Litigation,* 4 Harv. Negot. L. Rev. 231, 232 (1999) (recognizing circuit split, concluding that courts should refrain from allowing parties to expand scope of judicial review unless and until Congress amends the FAA); Hans Smit, *Contractual Modification of the Scope of Judicial Review of Arbitral Awards,* 8 Am. Rev. Int'l Arb. 147, 150 (1997) ("The thesis of this comments is that the scope of judicial review of arbitral awards is not subject to contractual modification in

any respect and that the contrary view should be rejected for both practical and legal reasons, and as contrary to informed social policy."); Kenneth M. Curtin, *An Examination of Contractual Expansion and Limitation of Judicial Review of Arbitral Awards,* 15 Ohio St. J. on Disp. Resol. 337, 370 (2000) ("a strict, unguided adherence to the principle of freedom of contract needs to be tempered with a respect for the arbitral process and the goals" of the FAA); Kevin A. Sullivan, *The Problems of Permitting Expanded Judicial Review of Arbitration Awards Under the Federal Arbitration Act,* 46 St. Louis U. L.J. 509 (2002) (exploring conflict, concluding that parties should not be allowed to expand scope of judicial review); Stephen P. Younger, *Agreements to Expand the Scope of Judicial Review of Arbitration Awards,* 63 Alb. L. Rev. 241, 261 (1999) (urging parties to use caution before agreeing to expand the scope of judicial review because "by agreeing to broader review, they may be sacrificing economy and efficiency on the altar of judicial review"); Milana Koptsiovsky, *A Right to Contract for Judicial Review of an Arbitration Award: Does Freedom of Contract Apply to Arbitration Agreements?* 136 Conn. L. Rev. 609 (2004) (noting conflict, arguing that parties should be allowed by private contract to expand or limit judicial review); Bradley King, *Through Fault of Their Own – Applying Bonner Mall's Extraordinary Circumstances Test to Heightened Standard of Review Clauses,* 45 B.C. L. Rev. 943 (2004) (noting conflict, generally approving of Second Circuit's analysis in *Hoeft*); Amos J. Sheffield, *Kyocera Corp v. Prudential-Bache Trade Services: The Scope of Federal Judicial Review Over Arbitration Cases -- Federal Arbitration Act versus Contract,* 27 Am. J. Trial Advoc. 423 (2003) (discussing conflict over whether and to what extent parties may by contract alter the standard of review); Eric Van Ginkel, *"Expanded" Judicial Review Revisited: Kyocera Overturns LaPine,* 4 Pepp. Disp. Resol. L.J. 47, 59 (2003) (urging the Supreme Court to "take up this issue as

soon as it is given the opportunity to conclusively resolve the split among the circuits,"); Rena Kreitenberg, *A Cloud Over Arbitration Decision Appeals, A State Court Ruling Changes the Calculus when Considering Contractual Arbitration Clauses*, 25 L.A. Law 44 (2002) (addressing conflict between California state courts and federal courts); Heather White, *"Clear and Unmistakable:" The Third Circuit's Specificity Requirement for Contractual Waiver of the FAA*, 1 J. Am. Arb. 285 (2002) (critically analyzing conflict); *Having ADR Conversations Across Cultures*, 22 ALTHCL 111 (2004) (presenting conflicting positions by members of the bar on the issue).

II. The Petition Should Be Granted Because The Tenth Circuit's Approach Allowing Private Parties To Alter The Federal Statutory Provisions, Particularly The Right To Appeal, Is Directly Contrary To The Plain Language Of The FAA.

By granting this Petition, the Court not only can resolve the conflict described above, it can also re-orient the courts of appeal to the proper analytical approach in cases such as these. The fundamental flaw in the Tenth Circuit's opinion is the assumption that the case turns on the court of appeals' assessment of an amorphous "federal arbitration policy" that is somehow divorced from the language and context of the statute itself. As explained below in Part A, the threshold issue is not whether parties, as a matter of unfettered policy analysis, *ought* to be able to override the statutory requirements, but whether there is any authority whatsoever in the text of the statute itself that would allow the parties to do so. And, as explained in Part B, it is a total fiction to conclude, as the Tenth Circuit did in this case, that a clause barring appellate review, when Congress specifically granted the right of appellate review, is *consistent* with "federal policies furthered by the FAA."

A. Plain Language of the FAA

There is absolutely no textual authority for the proposition that Congress intended parties to be able to override the standards of judicial review of arbitration awards. Section 16 of the FAA states, plainly, that "[a]n appeal may be taken from an order . . . confirming or denying confirmation of an award." 9 U.S.C. § 16. There are no provisions to the effect that "unless the parties agree otherwise . . .," or "in accordance with the parties' agreement." The absence of any such language in the FAA's judicial review provisions is striking in light of the fact that Congress did reference the parties' agreement in Section 3 of the FAA relating to stays of court proceedings "until such arbitration has been had in accordance with the terms of the agreement." 9 U.S.C. § 3.

Even more striking is Section 5, which contains exactly the kind of "unless the parties agree otherwise" language that is conspicuously absent from the judicial review provisions. Section 5 provides that the parties' agreement as to the selection of arbitrators controls, but if there is no such agreement the arbitrator shall be selected by the court. 9 U.S.C. § 5. Section 5 further provides that "unless otherwise provided in the agreement the arbitration shall be by a single arbitrator." *Id.* If Congress intended the parties to be free to alter all provisions of the FAA in their agreements to arbitrate, the "unless otherwise provided" language in Section 5 would be unnecessary; the entire Act would be relevant only to the extent that the parties had not agreed otherwise. Or, to put it another way, if Congress intended the judicial or appellate review provisions specified in Sections 10 and 16 of the FAA to be optional, the congressional drafters were well aware of the method of doing so, by adding to those sections the "unless otherwise agreed" language as it had done in Section 5.

Therefore, the clear and objective assessment of congressional intent, as manifested in the plain language of the statute, is that Congress intended to allow parties to determine for themselves the scope of the arbitration (Section 3), the manner of selection of the arbitrators (Section 5), and the number of arbitrators (Section 5), but did not intend to allow the parties to change the fundamental due process standards or the availability of appellate review (Sections 10 and 16).

This Court has noted earlier that courts should not follow the quip that "only when legislative history is doubtful do you go to the statute." *United States v. Bass*, 404 U.S. 336, 339, (1971) (quoting Felix Frankfurter, *Some Reflections on the Reading of Statutes*, 47 Col. L. Rev. 527, 543 (1947)). By granting the Petition in this case, this Court can confirm, again, that "[o]nce the meaning of an enactment is discerned . . . the judicial process comes to an end." *TVA v. Hill*, 437 U.S. 153, 194 (1978).

B. Decision Cannot be Based on "Federal Policy" Grounds

Rather than seeking to apply the law as set forth by Congress, the Tenth Circuit has adopted an alarmingly open-ended approach toward statutory construction. To the Tenth Circuit, the dispositive issue is neither the language of the statute nor its legislative history, but instead is whether the parties' change to the statutory scheme "'conflicts with the federal policies furthered by the FAA.'" App., *infra*, 11a (quoting *Bowen*, 254 F.3d at 935). The framing of the issue itself is suspect, for it appears to find an enforceable policy emanating from the Act that is apart from the Act itself.

The Tenth Circuit's application of the amorphous "federal policies" standard is plainly illogical. The court reasons that since "the fundamental policy behind the FAA is

to reduce litigation costs," an agreement by the parties to reduce litigation costs even more than Congress specifically allowed does not conflict with the "federal policies furthered by the FAA." The Tenth Circuit's analysis totally disregards the competing interest, also manifested in Sections 10 and 16 of the FAA, to safeguard the due process rights of the parties. Under the Tenth Circuit's reasoning, the federal statute raising the jurisdictional amount in diversity cases could be viewed as furthering a single federal policy – the restriction of access to the federal courts. By the Tenth Circuit's reasoning, a court could impose an even higher jurisdictional amount because to do so would advance even further the congressional purpose of restricting access to the federal courts. The answer to this hypothetical and to the Tenth Circuit's opinion in this case is the same: the policy choice of Congress has been fixed in the legislation itself – the competing policies balanced – and that policy choice can best be furthered if the courts enforce the law rather than attempting to further *one* of the competing policies that led to the enactment of the legislation.

This Court has repeatedly rejected the notion that the text of a statute may be overridden by reference to a "broad purpose" of the legislation. As Chief Justice Burger reasoned for a unanimous court in the "nonbank bank" case, *Board of Governors of the Federal Reserve System v. Dimension Financial Corp.*, 474 U.S. 361 (1986):

> Application of "broad purposes" of legislation at the expense of specific provisions ignores the complexity of the problems Congress is called upon to address and the dynamics of legislative action. Congress may be unanimous in its intent to stamp out some vague social or economic evil; however, because its Members may differ sharply on the means for effectuating

> that intent, the final language of the legislation may reflect hard-fought compromises. Invocation of the "plain purpose" of legislation at the expense of the terms of the statute itself takes no account of the processes of compromise and, in the end, prevents the effectuation of congressional intent.

474 U.S. at 373-74.

III. This Petition Should Be Granted Because The Tenth Circuit Applied Federal, Rather Than State, Law To Interpret This Agreement in Conflict With The Decisions Of The Fifth Circuit And This Court.

The second question worthy of this Court's review would only be reached if this Court holds that pre-dispute agreements generally may alter federal statutory standards for judicial review. That question is whether the interpretation of the parties' agreement should be governed by federal or state law, another issue as to which there is a conflict in the courts of appeal.

In this case, the choice-of-law clause in the agreement specified that California law would govern the interpretation of the agreement. Before the court of appeals, MACTEC argued that under California law the "nonappealable" phrase was ambiguous and therefore unenforceable or, at a bare minimum, that an evidentiary hearing on the meaning intended by the parties.[10] The Tenth Circuit did not address California law or the choice-of-law

[10] This issue was not raised in the district court, or in the arbitration itself.

issue, holding instead that under Tenth Circuit precedent the agreement was sufficiently clear and unambiguous to bar any appeal from the district court's decision. App., *infra*, 14a.

The Tenth Circuit's failure to apply the law chosen by the parties conflicts with the decisions of the Fifth Circuit. In *Prescott v. Northlake Christian School*, 369 F.3d 491, 498 (5th Cir. 2004), the court, following the *Gateway* case discussed above, held that parties in general had the right to alter federal judicial review provisions of the FAA. The court went on to hold, however, that Louisiana law applied to the interpretation of the arbitration clause and, under Louisiana law, the meaning of the clause was uncertain. The court accordingly remanded the case to the district court "to take evidence on and contractually interpret the circumstances surrounding the making of the provision." In *Harris v. Parker College of Chiropractic*, 286 F.3d 790 (5th Cir. 2002), the court of appeals took a similar approach, ruling that Texas law applied to the interpretation of the arbitration clause in question and that, under Texas law, the parties had indeed agreed to "de novo" review of the arbitration award. The Tenth Circuit's failure to apply California law in this case cannot be reconciled with these Fifth Circuit decisions.

Nor can the Tenth Circuit's application of federal law to contract interpretation be squared with the decisions of this Court. As Justice Thomas has explained: "Under *Volt*, when an arbitration agreement contains a choice-of-law provision, that provision must be honored, and a court interpreting the agreement must follow the law of the jurisdiction selected by the parties." *Howsam v. Dean Witter*

Reynolds, Inc., 537 U.S. 79, 87 (2002) (Thomas, J., concurring).[11]

In sum, the correct resolution of this case is to hold that the judicial review provisions of the FAA are to be applied notwithstanding any agreement to the contrary by the parties. Such a holding would allow for the uniform application of the simple rules designed by Congress "reducing technicality, delay and expense to a minimum and at the same time safeguarding the rights of the parties," H.R. Rep. No. 96-68, at 2 (1924), and avoid any choice-of-law issue. If, however, the procedures specified by Congress should be deemed subservient to private agreements providing otherwise, courts interpreting such agreements must follow the law of the jurisdiction selected by the parties.

---

[11] This Court has recognized a "body of federal substantive law of arbitrability," *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1, 24 (1983), that is enforceable in both state and federal courts. *Southland Corp. v. Keating*, 465 U.S. 1, 12 (1984). Yet there are no "arbitrability" issues involved in this case -- the arbitration clause was enforced, the claims were arbitrated, and the preemptive federal policy favoring arbitration has been satisfied.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

Frank Tradewell Davis, Jr.
Counsel of Record
Bruce Perrin Brown
McKenna Long & Aldridge LLP
303 Peachtree Street, NE
Atlanta, GA 30308
(404) 527-4000
(404) 527-4198 Facsimile

January 23, 2006

APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
TENTH CIRCUIT

Nos. 03-1290, 03-1378.

MACTEC, INC.,
Plaintiff-Appellant,

v.

STEVEN GORELICK,
Defendant-Appellee.

Oct. 26, 2005.

Before EBEL and HENRY, *Circuit Judges*, and WHITE, *District Judge.*[*]

EBEL, *Circuit Judge.*

This case involves a contract dispute over payment of royalties for a patented invention. The parties to the contract differed as to the meaning of a contractual term and, pursuant to the agreement, arbitrated their dispute. After a hearing, the arbitrator found for Defendant Gorelick and awarded $4.5 million. Plaintiff MACTEC, Inc. filed an application in district court to vacate the arbitration award pursuant to the Federal Arbitration Act, 9 U.S.C. § 10 (2000) ("FAA"). Along with that application, MACTEC filed a declaratory judgment action on the grounds that the arbitrator's interpretation of the disputed contractual term constituted illegal patent misuse. In separate orders, the district court denied the application to vacate and dismissed the declaratory

---

[*] Honorable Ronald A. White, District Court Judge, Eastern District of Oklahoma, sitting by designation.

judgment action. MACTEC appealed both decisions to this court, and we consolidated the appeals for a hearing before a single panel.

As a matter of first impression in this circuit, we conclude that a non-appealability clause in an arbitration agreement that forecloses judicial review of an arbitration award beyond the district court level is enforceable. Due to the presence of such a clause in the instant arbitration agreement, we hold that we lack jurisdiction over MACTEC's appeal from the district court's denial of the application to vacate the arbitration award and DISMISS the case.

Regarding MACTEC's appeal from the dismissal of its declaratory judgment action, we conclude that the doctrine of res judicata bars the suit and we AFFIRM the district court's dismissal.

BACKGROUND

I. Factual history.

A. Development and assignment of the NoVOCs technology

While a professor at Stanford University, Defendant-Appellee Steven Gorelick ("Gorelick") and one of his colleagues, Haim Gvritzman ("Gvritzman"), developed a new method for removing volatile organic contaminants from groundwater ("the NoVOCs technology"). What was unique about this technology is that it was designed to remove the contaminants in situ, or while the water was still underground, by using processes known as vapor stripping and gas pumping.

In 1991, Gorelick and Gvritzman assigned "any right, title, and interest," in the NoVOCs technology to Stanford, including the right to seek a patent. In return for their assignment, Gorelick and Grivtzman each received a one-sixth share of net royalty income, with the remaining two-

thirds royalty going to the university. Stanford subsequently applied for, and received, a patent for the NoVOCs technology and has owned that patent ever since.

In 1992, Gorelick formed a company called NoVOCs, Inc., ("NoVOCs") with the intention of developing profitable wells that used the NoVOCs technology. To that end, NoVOCs obtained an exclusive license from Stanford to use the patented technology in exchange for a series of annual royalties. Gorelick was the sole shareholder and manager of NoVOCs.

In 1994, Gorelick sold all of his shares in NoVOCs to a company called EG & G, pursuant to a stock purchase agreement. In return for the stock, EG & 0 agreed to pay Gorelick an up-front payment of just under $3.3 million. In addition, EG & G agreed to give Gorelick installment payments of (1) twenty-five percent of future revenue derived from licenses or sub-licenses of the NoVOCs technology; and (2) $3000 for each well EG & G drilled using the NoVOCs technology. By acquiring all of Gorelick's stock, EG & G became the exclusive license holder of Stanford's patent and thereby assumed NoVOCs' obligations to pay royalties to the university. The stock purchase agreement provided that all disputes arising under the agreement would be governed by California law and would be subject to arbitration. Two aspects of the stock purchase agreement are particularly relevant to this appeal: First, the agreement specifically excluded from the scope of arbitrable issues any disputes relating to patent invalidity or infringement. Second, the agreement provided that any judgment upon the award rendered by the arbitrator would be final and nonappealable.

B. Entrance of MACTEC and subsequent re-negotiations

In 1997, EG & G agreed to sell certain of its assets to Plaintiff-Appellant MACTEC, Inc. ("MACTEC") including its stock in NoVOCs (and, by implication, NoVOCs' license

to Stanford's patent over the NoVOCs technology). In a separate written instrument, MACTEC became the successor-in-interest to the stock purchase agreement between EG & G and Gorelick, expressly assuming all of EG & G's payment obligations to Stanford and Gorelick.

In 1998, MACTEC, through one of its LLC subsidiaries, began using a different method of *in situ* groundwater treatment in some of its wells, known as "UBV" technology.[1] Because the NoVOCs and UBV technologies overlapped, MACTEC was unsure as to whether the use of the UBV technology would trigger the $3000 per-well royalty obligation to Gorelick it had assumed in the stock purchase agreement. As a result, MACTEC approached Gorelick with the intention of re-negotiating the royalty payments.

The parties eventually agreed in writing to reduce Gorelick's royalty payment to $1500 for each "remediation well" that was installed by the LLC. For remediation wells not installed by the LLC, but rather by another entity under the MACTEC umbrella, Gorelick would continue to receive his original $3000 payment. The term "remediation well" is defined in the document as "any hole that has been dug, drilled, or otherwise installed, or which existed and has been converted in use, and that is employed or intended for the partial or complete removal treatment of subsurface contaminants." Nowhere in the written agreement did MACTEC condition Gorelick's payment on a given well's use of NoVOCs or UBV technology.

C. Royalty payment dispute

For the next two years, Gorelick received occasional payments from MACTEC, ranging from $1500 to $4500. Gorelick received the final payment on November 15, 2000. One month later, Gorelick learned from Stanford that

[1] In the record, this technology is also referred to as "IEG technology."

MACTEC had canceled its licensing agreement for the NoVOCs technology. Gorelick then called executives at MACTEC who stated that since their relationship with Stanford had terminated, they no longer had royalty obligations to Gorelick.

Gorelick responded that his agreement with MACTEC was a separate legal obligation which he expected MACTEC to honor. In addition, Gorelick asked MACTEC for specific information regarding remediation wells for which he was entitled to receive payment because he felt that there had been inadequate reporting throughout the whole process. MACTEC did not provide the requested information, and instead alleged that the NoVOCs technology had caused the company as much as $3 million in damages.

II. Procedural history.

On August 6, 2001, Gorelick filed a demand for arbitration to recover payments under the stock purchase agreement. During discovery, Gorelick became aware of a number of wells that MACTEC drilled but for which it never paid him royalties under the contract. These wells eventually became the central issue in the controversy. MACTEC maintained that these wells were drilled using only public-domain technology, not the NoVOCs or UBV technology. As a result, it argued that it was not required to pay Gorelick the royalty payments. Gorelick responded by pointing to the plain language of the 1998 amendment to the stock purchase agreement, which makes no distinction between NoVOCs wells and other types of wells.

A. Preliminary issues before the arbitrator

At the arbitration, MACTEC sought to introduce extrinsic evidence of the parties' intent over the meaning of the term "remediation well" to support its position that the royalty payments only applied to wells involving NoVOCs or UBV

technology. Both sides briefed and argued the issue before the arbitrator. The arbitrator felt that extrinsic evidence of intent was only relevant if one of the contract terms was ambiguous. Finding no ambiguity in the contract, the arbitrator excluded all extrinsic evidence of the parties' intent.

MACTEC also raised two affirmative defenses in its hearing brief (which was filed only a few days before the actual hearing). First, MACTEC claimed that Gorelick's interpretation of the contract constituted patent misuse under *Zenith Radio Corp. v. Hazeltine Research Inc.*, 395 U.S. 100, 136, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969). Second, MACTEC argued that Gorelick's patent was effectively invalid because the European Patent Office concluded that the technology was not based on an "inventive step."

Gorelick, in his hearing brief, filed a motion to strike these two defenses. Gorelick argued that the defenses were not timely raised because they were not included in MACTEC's specification of defenses, filed on April 1, 2002 (pursuant to the arbitrator's scheduling order). After hearing argument, the arbitrator issued the following oral ruling:

> [T]he motion to strike is granted on several bases. Number one, we had a clear scheduling order. And I believe, if I'm accurate, that all claims and defenses had to be asserted in writing by April 1st of this year. That was not done.
>
> Secondly, even if it weren't an issue of failure to specify on time, you can't bring up new defenses in a case where there's been as much discovery and motions as there have been in this case. You can't bring up new defenses a week or five days before trial.
>
> And thirdly, invalidity of the patent is beyond my jurisdiction. That's a federal issue, and we're not going to decide the patent issues here. If there was an invalidity of the patent, you've got a right to file a

lawsuit in federal court. Those two issues are out of this case, period, okay?

B. Arbitrator's award and district court review

At the conclusion of the four-day hearing, the arbitrator found for Gorelick and awarded approximately $4.5 million in damages. Pursuant to the stock purchase agreement, MACTEC sought review before a federal district court and filed an application to vacate the arbitrator's award pursuant to the FAA, 9 U.S.C. § 10. In support of its application, MACTEC advanced three primary arguments: (1) it was improper for the arbitrator to exclude extrinsic evidence relating to the intent of the parties; (2) the court should not have struck the patent misuse defense; and (3) enforcement of the award would be patent misuse and would therefore be illegal. These actions, MACTEC argued, required vacatur under 9 U.S.C. § 10(a)(3) and on public policy grounds.

After considering MACTEC's arguments, the district court held that: (1) the arbitrator did not violate 9 U.S.C. § 10(a)(3) by either (a) granting the motion to strike the defense of patent misuse, or (b) refusing to hear evidence of the parties' intent; and (2) it was not a patent misuse (or a violation of public policy) to enforce the arbitration award.

C. The declaratory judgment action

Two weeks after filing its application to vacate the arbitration award, MACTEC filed a complaint in the same district court seeking a declaratory judgment that Gorelick's (and, by implication, the arbitrator's) interpretation of the contract constituted patent misuse. Gorelick moved pursuant to Fed.R.Civ.P. 12(b)(1) and (6) to dismiss, arguing, inter alia, that (1) the action was barred by res judicata; and (2) MACTEC failed to state a claim. In a one-page order issued the day after denying MACTEC's application to vacate the arbitration, the district court dismissed the declaratory judg-

ment action with prejudice. The court did not expressly give its reasoning, stating only that it was acting for the reasons set forth in the earlier order denying MACTEC's application to vacate.

MACTEC subsequently appealed both decisions to this court.[2] In addition to his opening brief, Gorelick has filed a motion to dismiss for lack of appellate jurisdiction, which is a matter of initial concern before the court.

DISCUSSION

I. Gorelick's motion to dismiss the arbitration appeal for lack of appellate jurisdiction.

Ordinarily, this court's jurisdiction to consider an appeal from a district court's confirmation of an arbitration award arises under 28 U.S.C. § 1291 and 9 U.S.C. § 16(a)(1)(D). The jurisdictional problem in this case arises from the fact that in the stock purchase agreement, the provision dealing with arbitration contained a non-appealability clause. It states, in relevant part:

> Judgment upon the award rendered by the arbitrator shall be final and nonappealable and may be entered in any court having jurisdiction thereof.

Therefore, the question before us is whether such a provision is enforceable and, as a result, deprives this court of appellate jurisdiction.

As a general rule, judicial review over an arbitration award is very limited. The FAA, 9 U.S.C. § 10(a), lists only four situations in which it is appropriate at the district court level

---

[2] For clarity, when referring to MACTEC's appeal of the order confirming the arbitration award (10th Cir. Docket No. 03-1378), we will use the term "the arbitration appeal." When referring to MACTEC's appeal of the order dismissing its declaratory judgment action (10th Cir. Docket No. 03-1290), we will use the term "the declaratory judgment appeal."

to vacate an arbitration award: (1) where the award was the product of corruption or fraud; (2) where there was evident partiality or corruption on the part of the arbitrator; (3) where the arbitrators were guilty of misconduct in refusing, upon sufficient cause shown, to postpone the hearing or hear pertinent and material evidence; and (4) where the arbitrator exceeded his powers. In addition, the Supreme Court has held that vacatur is also appropriate when the arbitrator demonstrates a "manifest disregard" for the law. *Wilko v. Swan*, 346 U.S. 427, 436-437, 74 S.Ct. 182, 98 L.Ed. 168 (1953), *overruled on other grounds, Rodriguez de Quijas v. Shearson/Am. Express, Inc.*, 490 U.S. 477, 485, 109 S.Ct. 1917, 104 L.Ed.2d 526 (1989); *see also Hoeft v. MVL Group, Inc.*, 343 F.3d 57, 64 (2d Cir .2003). As for appellate review, the FAA merely provides that decisions made under § 10(a) may be appealed. 9 U.S.C. § 16. The statute is silent on whether such an appeal is barred if the parties agree that the district court's judgment confirming or vacating the award is to be non-appealable.

This court considered a similar issue in *Bowen v. Amoco Pipeline Co.*, 254 F.3d 925 (10th Cir.2001). In that case, the parties, pursuant to a prior agreement, arbitrated a dispute over damages caused by an oil pipeline leak. *Id.* at 927-28, 930. The arbitration panel found for the plaintiff and awarded damages. *Id.* at 930. Thereafter, the plaintiff sought, and received, a confirmation of the award from the district court. *Id.* The defendant appealed, claiming that the arbitrators exceeded their powers and acted in manifest disregard of the law. *Id.* at 930, 932.

The plaintiff moved to dismiss the appeal for lack of jurisdiction, citing a provision in the arbitration agreement that stated that the district court's ruling on the award was to be "final." *Id.* at 930. We noted in dicta that "although parties to an arbitration agreement may eliminate judicial review by contract, their intention to do so must be clear and un-

equivocal." *Id.* at 931 (citing *Dep't of Air Force v. Fed. Labor Relations Auth.*, 775 F.2d 727, 733 (6th Cir.1985); *Aerojet-Gen. Corp. v. Am. Arbitration Ass'n*, 478 F.2d 248, 251 (9th Cir.1973)). We held that the parties' agreement to make the district court's judgment "final" did not clearly evince an intent to waive all appellate review, stating:

> In fact, the very statute from which we derive our jurisdiction, 28 U.S.C. § 1291, grants appellate courts jurisdiction from "all final decisions of the district courts." Hence, by agreeing that the district court's ruling shall be final, the parties have merely reinforced the appellate jurisdiction conferred by § 1291.

Bowen, 254 F.3d at 931. As a result we denied the plaintiffs motion to dismiss the appeal. *Id.* at 930.

In the instant case, the stock purchase agreement states not only that the district court's judgment shall be final, but also that it shall be "nonappealable." As a result, Gorelick relies heavily on our dicta in *Bowen* to argue that the instant clause should be held to have waived all judicial review over the district court's confirmation of the arbitration award.

In a separate portion of *Bowen*, however, we held that the parties may not contractually expand the standard of judicial review to allow the district court to vacate the award for insufficient evidence. 254 F.3d at 935, 937. In so doing, we noted that "[w]hen Congress passed the Act in 1925, it did so with the primary goal of changing the judiciary's refusal to enforce arbitration clauses in private contracts." *Id.* at 933. This policy notwithstanding, we refused to enforce the parties' agreement to permit judicial review of an arbitrator's decision based on sufficiency of the evidence. *Id.* at 935, 937. Our decision was rooted in another policy goal of the FAA: "[B]y agreeing to arbitrate, a party trades the procedures and

opportunity for review of the courtroom for the simplicity, informality, and expedition of arbitration." *Id.* at 935 (alteration in original) (quotation omitted).

> We would reach an illogical result if we concluded that the FAA's policy of ensuring judicial enforcement of arbitration agreements is well served by allowing for expansive judicial review after the matter is arbitrated. . . . Contractually expanded standards, particularly those that allow for factual review, clearly threaten to undermine the independence of the arbitration process and dilute the finality of arbitration awards. . . .

Id. We ultimately framed our Bowen holding in broad terms: "We agree and hold that parties may not contract for expanded judicial review of arbitration awards." *Id.* at 937.

From this holding, one might argue that if *Bowen* expressly forbade private *expansion* of judicial review, it might also, by implication, prohibit private *restriction* (or elimination) of judicial review. After all, to justify our refusal to enforce the parties' contractual provisions expanding judicial review, we described the Supreme Court's jurisprudence in this area as suggesting "that the FAA is more than a collection of default rules, which parties may alter with complete discretion." *Id.* at 935. But to make such an argument ignores our dicta in the jurisdictional section of the decision, that "parties to an arbitration agreement may eliminate judicial review by contract" so long as they clearly and unequivocally indicate their intention to do so. *Id.* at 931.

How, then, do we reconcile our stated willingness to accept private *restrictions* on judicial review with our express holding that private *expansions* on judicial review are unenforceable? Fortunately, the panel in *Bowen* solves this dilemma: "The key question is whether the alternate rule conflicts with the federal policies furthered by the FAA." *Id.* at 935. If the fundamental policy behind the FAA is to reduce

litigation costs by providing a more efficient forum, it makes sense to uphold contractual provisions that support that aim while striking down provisions that subvert it.

This is not to say that we would uphold any and all private restrictions on judicial review over an arbitrator's award. In *Hoeft*, the parties' agreement provided that the arbitrator's decision was not "*subject to any type of review or appeal whatsoever*." 343 F.3d at 63. After the arbitrator found for the plaintiff, the defendant successfully persuaded the district court to vacate the award on the grounds that the arbitrator manifestly disregarded the law. *Id.* at 61, 63. On appeal, the plaintiff argued that the non-appealability clause should have barred the district court from examining the substance of the arbitrator's decision because the parties had expressly agreed that the arbitrator's award would not be subject to any sort of judicial review. *Id.* at 63. The Second Circuit held that a non-appealability provision cannot deprive the federal courts of the ability to apply the standards set forth in 9 U.S.C. § 10(a) or *Wilko*. *Hoeft*, 343 F.3d at 66. The court noted that the plaintiff's position was internally inconsistent: the plaintiff essentially argued that he should be entitled to the benefits of judicial confirmation of the award without incurring the risk of vacatur under § 10(a)(3). *Id.* at 64. This would, the court argued, turn the district court's involvement with the case into nothing more than a rubber stamp of the arbitration award. *Id.* The court's overarching concern was that if the federal courts were to give the stamp of legitimacy to the arbitrator's decisions (by confirming his award), they must also retain the right to abrogate that award (if his conduct falls within the narrow parameters for vacatur). *See id.*

There is a fundamental difference between the instant case and *Hoeft*. In *Hoeft*, the non-appealability clause applied to a *district court's* review of the arbitrator's award. 343 F.3d at 63. Here, on the other hand, the clause applies only to an *appellate court's* review of the district court's judgment

(presumably confirming or vacating the arbitrator's award). As a result, none of the policy concerns implicated by *Hoeft* are present in this case. The agreement here preserves district court review under 9 U.S.C. § 10(a)(3), and while an unsatisfied defendant would not be able to appeal a district court order denying his application to vacate the award, so too would an unsatisfied plaintiff be unable to contest a district court's vacatur of an arbitration award in plaintiffs favor. From the parties' perspective, then, the risks of a negative outcome resulting from the non-appealability clause are borne equally by both sides. What we have here is something less than full judicial review of the arbitrator's decision; but we do not have a situation in which there is no judicial review at all, nor a situation where a court is asked to enforce an arbitration award without being given the authority to review compliance of that award with the FAA. It is, in a sense, a compromise whereby the litigants trade the risk of protracted appellate review for a one-shot opportunity before the district court.[3] Indeed, courts routinely enforce agreements that waive the right to appellate review over district court decisions. *See* 15A Charles Alan Wright et al., *Federal Practice and Procedure* § 3901, at 18-19 (2d ed.1992) [hereinafter "Wright & We see no reason to treat district court decisions concerning arbitration awards differently than any other kind of district court judgment.

Thus, consistent with our dicta in *Bowen*, we hold that contractual provisions limiting the right to appeal from a

---

[3] MACTEC cites *Team Scandia, Inc. v. Greco*, 6 F.Supp.2d 795, 798 (S.D.Ind.1998), in support of its argument that a non-appealability clause does not foreclose judicial review of an arbitration award on the grounds set forth by the Federal Arbitration Act. Like *Hoeft*, however, *Team Scandia* deals only with the effect of such a clause on the district court's ability to review the arbitrator's award. *Id.* at 798. It does not deal with the effect of a non-appealability provision that affects only the appellate court's ability to consider the judgment of a district court that confirms or vacates an arbitrator's award.

district court's judgment confirming or vacating an arbitration award are permissible, so long as the intent to do so is clear and unequivocal. Here, the parties' contract expressly provided that the district court's judgment would be both "final" and "nonappealable." While use of the term "final" would not, by itself, be enough to convey an intent to eliminate appellate rights, *see Bowen*, 254 F.3d at 931, inclusion of the term "nonappealable" serves this purpose.

Accordingly, Gorelick's motion to dismiss the arbitration appeal for lack of jurisdiction is GRANTED. This leaves only our consideration of the declaratory judgment appeal.

II. Whether MACTEC's declaratory judgment appeal is barred by the doctrine of res judicata.

As noted above, in addition to its application to vacate the arbitration award, MACTEC contemporaneously sought, in a separate legal proceeding before the same district court, a declaration that Gorelick's (and, by implication, the arbitrator's) interpretation of the contract permitted Gorelick to collect royalties on unpatented technologies and therefore constituted patent misuse.[4] Although framed as an illegality of contract issue, MACTEC originally raised this argument at the arbitration. That is, MACTEC claimed that Gorelick's

---

[4] "Patent misuse occurs where the patent owner attempts to extend the impact of his patent beyond its proper scope. . . ." John Gladstone Mills et al., *Patent Law Basics* § 12:8 (2004). For example, the owner of a patented salt canning machine who requires licensees to use (and thus purchase) the owner's unpatented salt tablets in the machine as a condition of the license commits patent misuse. *See e.g., Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491-92, 62 S.Ct. 402, 86 L.Ed. 363 (1942); *see also Zenith Radio*, 395 U.S. 100, 138-39, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969) (holding that conditioning a patent license on royalty payments for products which do not use the patented technology amounts to patent misuse). Generally speaking, patent misuse is an affirmative defense raised in response to an allegation of patent infringement. Lawrence M. Sung & Jeff E. Schwartz, *Patent Law Handbook* § 4:8 (2004).

interpretation of the contract would amount to patent misuse and as a result, would be an illegal contract which would be unenforceable under basic contract law principles. The arbitrator ruled that MACTEC could not assert a patent misuse defense because (1) MACTEC failed timely to file its defense; and (2) because issues of patent invalidity were, by the terms of the arbitration agreement, beyond the scope of arbitrable issues.

MACTEC then re-asserted this argument before the district court in its application to vacate the arbitration award, arguing that since the arbitration award permitted patent misuse, it must be vacated on public policy grounds. *See Denver & Rio Grande W. R.R. Co. v. Union Pac. R.R. Co.*, 119 F.3d 847, 849 (10th Cir.1997) (noting that courts may vacate arbitration awards that violate public policy). The district court considered and rejected this argument, based on its conclusions that Gorelick was never a patent holder of the NoVOCs technology, the payments were voluntary, and the agreement was not a patent license.

When MACTEC filed its declaratory judgment action, Gorelick moved to dismiss under Fed.R.Civ.P. 12, arguing, *inter alia*, that the suit was barred by res judicata. Although the district court did not base its dismissal of the suit on res judicata,[5] we nevertheless consider it as an alternate ground of affirmance because it was adequately raised below. *See Blum v. Bacon*, 457 U.S. 132, 138 n. 5, 102 S.Ct. 2355, 72 L.Ed.2d 728 (1982).

Thus, the precise issue before our court is whether the arbitration award itself (or the district court's subsequent confirmation of the award) precludes MACTEC's subsequently-filed declaratory judgment action. The application of

---

[5] The district court's dismissal order stated only that it was dismissing the declaratory judgment action for the reasons stated in the order denying the application to vacate the arbitration award.

res judicata is a question of law which we review *de novo*. *Satsky v. Paramount Communications, Inc.*, 7 F.3d 1464, 1467-68 (10th Cir.1993).

The doctrine of res judicata, or claim preclusion, will prevent a party from relitigating a legal claim that was or could have been the subject of a previously issued final judgment. *Id.* at 1467. Under Tenth Circuit law, claim preclusion applies when three elements exist: (1) a final judgment on the merits in an earlier action; (2) identity of the parties in the two suits; and (3) identity of the cause of action in both suits. *Wilkes v. Wyo. Dep't of Employment Div. of Labor Standards*, 314 F.3d 501, 504 (10th Cir.2003). If these requirements are met, res judicata is appropriate unless the party seeking to avoid preclusion did not have a "full and fair opportunity" to litigate the claim in the prior suit. *Yapp v. Excel Corp.*, 186 F.3d 1222, 1226 n. 4 (10th Cir.1999). [FN6]

In a number of our cases, we have characterized the "full and fair opportunity to litigate" as a fourth requirement of res judicata. *See, e.g., Plotner v. AT & T Corp.*, 224 F.3d 1161, 1168 (10th Cir.2000). However, as we noted in Yapp, the absence of a full and fair opportunity to litigate is more appropriately treated as an exception to the application of claim preclusion when the three referenced requirements are met. *Yapp*, 186 F.3d at 1226 n. 4.

Here, it is undisputed that the parties to the arbitration and the declaratory judgment were the same. As for finality, a valid and final award by arbitration generally has the same effect under the rules of res judicata as a judgment of a court. *Restatement (Second) of Judgments* § 84(1) & cmt. b (1980). Indeed,

> [i]f any party dissatisfied with the award were left free to pursue independent judicial proceedings on the same claim or defenses, arbitration would be substantially worthless. Unless the express terms of the agreement or

> the peculiar custom of a trade dictate otherwise, therefore, subsequent judicial proceedings on the same claim or defenses ordinarily should be precluded. And so the courts rule.

18B Wright & Miller, *supra*, § 4475.1 at 509; *but cf. McDonald v. City of West Branch*, 466 U.S. 284, 292, 104 S.Ct. 1799, 80 L.Ed.2d 302 (1984) (holding that in an action under 42 U.S.C. § 1983, a federal court should not afford res judicata effect to an arbitration award brought pursuant to a collective-bargaining agreement because of the special federal rights that a § 1983 action is designed to protect).

Here, MACTEC has not challenged whether the arbitration award (or the district court's confirmation thereof) was final, but rather whether the award may be appealed to this court. The appealability of a judgment, however, does not hinder its preclusive effect. *See* 18A Wright & Miller, *supra*, § 4433, at 78-85 (noting general rule that a final judgment from a lower court carries res judicata effect even though it is still subject to review by an appellate court).

Identity of the cause of action is also present in both suits. *Wilkes*, 314 F.3d at 504. To determine what constitutes a "cause of action" for preclusion purposes, this court has adopted the "transactional approach" found in the *Restatement (Second) of Judgments* § 24. *Petromanagement Corp. v. Acme-Thomas Joint Venture*, 835 F.2d 1329, 1335 (10th Cir.1988). Under this approach, a cause of action includes all claims or legal theories of recovery that arise from the same transaction. *Id.* A contract is generally considered to be a "transaction" for claim preclusion purposes. *Id.* at 1336.

Here, MACTEC's allegations of patent misuse clearly arise out of the same contractual transaction as the underlying arbitration--the execution of the stock purchase agreement between Gorelick and MACTEC (as EG & G's successor-in-interest) and the subsequent renegotiation of the agreement's

terms in 1998. Thus, the third prong of claim preclusion is met.

However, MACTEC contends that it did not have a full and fair opportunity to raise the patent misuse defense at the arbitration. This is because, according to MACTEC, the arbitrator refused to allow MACTEC to present a patent misuse defense because it ruled that such issues were beyond the scope of the arbitration. Because the arbitrator was jurisdictionally barred from considering its patent misuse defense, MACTEC argues that it never had the opportunity to litigate this claim.

But this argument ignores the fact that MACTEC had a second chance to assert its patent misuse theory before the district court in its application to vacate the arbitration award. Indeed, MACTEC took advantage of this opportunity, arguing in its written motion that the arbitrator's award permitted patent misuse and should thus be vacated on public policy grounds. Furthermore, the district court considered and rejected this argument on the merits. Once the district court issued its decision, any subsequent litigation raising patent misuse was precluded. As we have noted above, the district court's decision to confirm the arbitration award (over MACTEC's patent misuse objections) was nonappealable. Accordingly, the declaratory judgment action is barred by res judicata.

CONCLUSION

For the reasons stated above, the arbitration appeal (No. 03-1378) is DISMISSED for lack of jurisdiction. As to the declaratory judgment appeal (No. 03-1290) we AFFIRM the judgment of the district court dismissing the case.

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO
Judge Richard P. Matsch

[Filed May 27, 2003]

Civil Action No. 02-M-1319 (CBS)

MACTEC, INC., a California corporatiuon,
Plaintiff,

v.

STEVEN GORELICK,
Defendant.

MEMORANDUM OPINION AND ORDER
ON PLAINTIFF'S APPLICATION TO VACATE
ARBITRATION AWARD AND DEFENDANT'S
APPLICATION FOR CONFIRMATION OF
ARBITRATION AWARD

Matsch, *Judge*

On July 11, 2002, plaintiff MACTEC, Inc. ("MACTEC") filed an application to vacate the arbitration award entered on July 10, 2002, in American Arbitration Association Case No. 77 198 00223 01 SUBR ("the arbitration award"). Dr. Steven Gorelick ("Dr. Gorelick"), the claimant in the arbitration proceeding and the defendant here, objected to the application and moved for confirmation of the arbitration award pursuant to § 9 of the Federal Arbitration Act, 9 U.S.C. §§ 1-16 ("FAA").

On July 29, 2002, MACTEC filed a complaint for declaratory relief, Civil Action No. 02-M-1456, asserting that the same arbitration award is unenforceable under the doctrine of

patent misuse. Dr. Gorelick moved pursuant to Fed. R. Civ. P. 12(b)(1) and (6) to dismiss Civil Action No. 02-M-1456, or in the alternative, to stay that action pending determination of Civil Action No. 02-M-1319.

On April 29, 2003, the court heard oral argument on MACTEC's application to vacate the arbitration award and the defendant's motions in both actions. The factual background of the arbitrated dispute is shown by the record in the arbitration action, by MACTEC's allegations in Civil Action No. 02-M-1456, and by the parties' briefs. The arbitration proceeding involved a dispute over the interpretation of provisions in an agreement between Dr. Gorelick and MACTEC, entitled "Revision Dated May 1, 1998 of the NoVOCs Stock Purchase Agreement of September 30, 1994."

Dr. Gorelick, a professor at Stanford University, was one of the inventors of a method for remediating subsurface contamination known as "NoVOCs" (no volatile organic compounds). This method involves the use of *in situ* groundwater recirculating technology. In 1991 Dr. Gorelick assigned the intellectual property rights to the NoVOCs technology to Stanford University through a Patent Royalty Sharing Agreement. Stanford filed U.S. patent applications for the NoVOCs technology and obtained U.S. patent no. 5,180,503 and continuation in part patent no. 5,389,267 (collectively "the '503 Patent").

In 1992, Dr. Gorelick founded NoVOCs, Inc., a California corporation. Dr. Gorelick was the sole shareholder. Shortly thereafter, Stanford assigned rights to the '503 Patent to NoVOCS, Inc. In April 1994, Stanford and Dr. Gorelick entered into anew agreement whereby Stanford granted NoVOCs, Inc. the exclusive rights to use the '503 Patent ("the Stanford license"). In September 1994, a Massachusetts environmental company, EG&G, Inc. ("EG&G"), purchased the stock of NoVOCs, Inc. from Dr. Gorelick. By purchasing the stock of NoVOCs, Inc., EG&G obtained the Stanford

license, entitling it to use the patented NoVOCs technology. The terms of that transaction are set forth in the stock purchase agreement by and among EG&G, NoVOCs, Inc., and Dr. Gorelick, dated September 30, 1994 ("the 1994 Stock Purchase Agreement").

According to the terms of the 1994 Stock Purchase Agreement, EG&G paid Dr. Gorelick a lump sum payment of approximately $3.3 million and agreed to pay Dr. Gorelick future installment payments. Article 3.1 of the Stock Purchase Agreement provided for installment payments to Dr. Gorelick based on the following formula: (I) 25% of any fees obtained by EG&G for sublicensing the rights to the NoVOCs technology, and (2) $3,000 for each well installed by EG&G using NoVOCs technology.

In November 1997, MACTEC purchased certain assets from EG&G, including the Stanford license. MACTEC received an assignment of rights and assumed EG&G's payment obligations to Dr. Gorelick under the 1994 Stock Purchase Agreement.

In 1998, MACTEC entered into a joint venture agreement with SBP Technologies, Inc. ("SBP"). SBP, through a license agreement with IEG Technologies Corporation, owned patent rights for remediation well technology known as "IEG technology."[1] The IEG technology competed with the NoVOCs technology. MACTEC and SBP formed MACTEC-SBP Technologies Company, L.L.C. (the "LLC") to market both the IEG and NoVOCs technology.

In March 1998, MACTEC proposed to Dr. Gorelick that the 1994 Stock Purchase Agreement be modified to change the payment formula. A draft amendment was prepared by

---

[1] IEG stands for Industrie Engineering GmbH, the German company that developed remediation technology known as the "UVB technology." In the arbitration proceeding, the IEG technology was also referred to as UVB technology.

Dr. Gorelick. MACTEC's president, Mr. Scott State, reviewed the draft and made changes. MACTEC did not consult with a lawyer during the exchange of drafts. On May 1, 1998, Dr. Gorelick and MACTEC entered into a revision of the 1994 NoVOCs Stock Purchase Agreement ("the 1998 Revision").

The 1998 Revision states, "The purpose of this Agreement is to restructure the payments to Gorelick for the NOVOCS Common Stock under the Original Agreement. . . This agreement is aimed at expanding the definition of remediation well as used in the Original Agreement so that it covers all types of remediation wells rather than wells merely employing the NOVOCS technology." The 1998 Revision defines "remediation well" as follows:

> "Remediation Well(s)" is defined here to be any hole that (i) has been dug, drilled, or otherwise installed, or (ii) which existed or has been converted in use, and that is employed or intended for the partial or complete removal or treatment of subsurface contaminants.

The 1998 Revision provides for payments to Dr. Gorelick based on the following formula:

> 1) One thousand Five Hundred Dollars ($1,500) per each Remediation Well installed by, or for MACTEC, SBP, or the LLC, for wells sold through the LLC.
>
> 2) Three Thousand Dollars per each Remediation Well ($3,000) installed by, or for, MACTEC, SBP, or the LLC, for wells sold outside the LLC.

The 1998 Revision also requires MACTEC to pay Dr. Gorelick "25% of Net Revenues from payments received by MACTEC, SBP, or the LLC, or any of their respective affiliates, for the sale to a third party of a license or sublicense rights to use the Remediation Well(s) . . . ."

The LLC did not install any remediation wells and was dissolved in January 1999. In July 2000, MACTEC reconveyed to IEG the rights to use the IEG technology. MACTEC terminated the Stanford license, effective December 31, 2000.

After MACTEC terminated the Stanford license, a dispute arose between Dr. Gorelick and MACTEC about whether MACTEC had any continuing payment obligations to Dr. Gorelick. In August 2001, Dr. Gorelick filed a demand for arbitration pursuant to Article 12.1 of the 1994 Stock Purchase Agreement. Dr. Gorelick and MACTEC agreed to arbitration through the American Arbitration Association ("AAA") and selected as the arbitrator Kenneth E. Barnhill. The arbitration proceedings were conducted according to the Rules of the AAA. Article 11 of the 1994 Stock Purchase Agreement provided that California law governed the dispute.

In the arbitration proceeding, Dr. Gorelick sought damages for breach of the 1994 Stock Purchase Agreement, as modified by the 1998 Revision, and for prospective declaratory relief. Dr. Gorelick's arbitration claims raised two issues of contract interpretation. The first was the meaning of "remediation wells." Dr. Gorelick claimed that the 1998 Revision expressly defined remediation well to include any type of well for the remediation or treatment of subsurface contaminants, and thus the contract definition included wells using public domain technology known as "pump and treat" wells. MACTEC contended that "remediation wells" was intended to mean only wells using patented NoVOCs or IEG technology. The second issue was the construction of the phrase "installed by, or for, MACTEC" in Articles 3.1(b)(1) and (b)(2)of the 1998 Revision. Dr. Gorelick claimed this phrase obligated MACTEC to pay him for remediation wells installed on MACTEC's behalf by independent contractors, agents, or entities controlled by MACTEC, including subsidiaries of MACTEC. MACTEC denied any obligation to pay Dr. Gorelick for wells installed by its wholly-owned

subsidiaries. In addition, Dr. Gorelick requested a declaration that he was entitled under Articles 3.4 and 3.5 the 1994 Stock Purchase Agreement to reports and an audit, including information about all types of "remediation wells" installed "by or for" MACTEC.[2]

The pre-hearing proceedings included written and deposition discovery, scheduling conferences, and hearings on discovery issues. A letter from the AAA case administrator dated February 7, 2002, set forth various deadlines. The deadline for the claimant to file a specification of claims and for the respondent to file a specification of counterclaims was April 1, 2002. The scheduling order required the filing of pre-hearing briefs by June 5, 2002. The hearing was set for June 10-14, 2002.

In its pre-hearing brief MACTEC argued for the first time that Dr. Gorelick's proposed construction of "remediation wells" would constitute illegal patent misuse by requiring MACTEC to pay royalties for processes not included in the '503 Patent. (MACTEC hearing br., pp. 24-25, App. 0031-32). MACTEC also asserted that the '503 Patent was invalid. (MACTEC hearing br., pp. 39-41, App. 0046-48). On the morning of the hearing on June 10, 2002, Dr. Gorelick moved to strike MACTEC's defenses of illegality/patent misuse and patent invalidity. The arbitrator granted the motion on the grounds that MACTEC had failed to assert these defenses in a timely fashion and that patent issues were beyond the jurisdiction of the arbitration proceeding. (Tr. at 16:4-23, App. 0147).

During opening statements, counsel for MACTEC explained its arguments regarding the disputed contract terms

---

[2] In his original arbitration claim, Dr. Gorelick also sought a declaration that MACTEC had breached duties of good faith and fair dealing by surrendering the Stanford license and failing to promote the NoVOCs technology in the marketplace. He later withdrew that claim.

and outlined its evidence on the intended meaning of the contract. The arbitrator then asked for argument on the issue of whether the contract was ambiguous, stating "If the contract is not ambiguous, the intent of the parties basically is irrelevant because the contract says what it says." (Tr. at 74:17-19, App. 0162). The arbitrator heard oral argument and ruled that the contract was unambiguous. The arbitrator determined that the express definition of remediation well in the 1998 Revision was not limited to wells using NoVOCs or IEG technology. The arbitrator also concluded that "installed by, or for, MACTEC" meant "in the interest of or on behalf of MACTEC, and therefore included wells installed by affiliates or subsidiaries of MACTEC. (Tr. at 96:25-101:15, App. 0167-69).

The hearing continued with the presentation of evidence. As a result of the arbitrator's ruling on ambiguity, the remaining issues related to damages and the requested declaratory relief. Dr. Gorelick testified, followed by Mr. Dennis Brown, a valuation analyst who testified about his calculation of Dr. Gorelick's damages. Counsel for Dr. Gorelick also called a MACTEC employee, Mr. Nicholas Kravitz, as an adverse witness. Counsel for MACTEC cross-examined the claimant's witnesses, and examined Mr. Karavitz, but called no other witnesses. Mr. Scott State, MACTEC's president, did not testify because his testimony would have concerned the intent of the agreement and the parties' subsequent performance to show intent—matters which the arbitrator had ruled were inadmissible. The hearing concluded early in the afternoon on June 11, 2002.

On July 10, 2002, the arbitrator issued a written arbitration award. The award defines remediation well as "any hole that (i) has been dug, drilled, or otherwise installed, or (ii) which existed or has been converted in use, and that is employed or intended for the partial or complete removal or treatment of subsurface contaminants." The award requires MACTEC

to pay $3,000 per remediation well for wells installed by MACTEC and other entities affiliated with MACTEC (MACTEC Environmental Technologies Company, LLC, Harding Lawson Associates, or Harding ESE). The arbitration award further states:

> 5. MACTEC is obligated to pay Dr. Gorelick for the installation of Remedition Wells in the future by MACTEC, its contractors, agents, affiliates or other entities controlled by MACTEC. The obligation has not been terminated. The contract between MACTEC and Dr. Gorelick is not terminable at will.
>
> 6. MACTEC must maintain records of installation of Remediation Wells by it, its agents, contractor or entities controlled by MACTEC, and such records must be made available for inspection and MACTEC shall report thereon to Dr. Gorelick in accordance with the provisions of Article 3.4 of the Stock Purchase Agreement.

The arbitrator awarded damages in favor of Dr. Gorelick and against MACTEC in the amount of $4,449,960.00.

Section 9 of the FAA states in pertinent part:

> If the parties in their agreement have agreed that a judgment of the court shall be entered upon the award made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title. If no court is specified in the agreement of the parties, then such application may be made to the United States court in and for the district within which such award was made.

Judicial review of an arbitration award is narrow. "A court may grant a motion to vacate an arbitration award only in the

limited circumstances provided in § 10 of the FAA , 9 U.S.C. § 10 or in accordance with a few judicially created exceptions." *Bowen v. Amoco Pipeline Co.*, 254 F.3d 925, 932 (10th Cir. 2001); *Denver & Rio Grande Western R.R. Co. v. Union Pacific R.R. Co.*, 119 F.3d 847, 849 (1997). "[T]his highly deferential standard has been described as 'among the narrowest known to law.' *Bowen*, 254 F.3d at 932, quoting *ARW Exploration Corp. v. Aguirre*, 45 F.3d 1455, 1462 (10th Cir. 1997).

1. The Arbitrator's Grant of the Motion to Strike

Section 10(a)(3) of the FAA provides that the court may vacate the award:

> where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced; . . .

MACTEC argues that the arbitrator violated 9 U.S.C. § 10(a)(3) by granting the motion to strike, thereby refusing to hear evidence on the issue of patent misuse.

The arbitrator granted the motion to strike on the following grounds:

> THE ARBITRATOR: That's fine. The answer is that the motion to strike is granted on several bases. Number one, we had a clear scheduling order. And I believe, if I'm accurate, that all claims and defenses had to be asserted in writing by April 1st of this year. That was not done.
>
> Secondly, even if it weren't an issue of failure to specify on time, you can't bring up new defenses in a case where there's been as much discovery and motions as there have been in this case. You can't bring up new defenses a week or five days before trial.

> And thirdly, invalidity of patent is beyond my jurisdiction. That's a federal issue, and we're not going to decide the patent issues here. If there was an invalidity of the patent, you've got a right to file a lawsuit in federal court. Those two issues are out of this case, period, okay?

Tr. at 16:4-23, App. 0147). MACTEC argues that the arbitrator's procedural ruling deprived it of a fair hearing, asserting that neither the AAA rules nor the scheduling order required it to raise illegality based on patent misuse before the filing of its pre-hearing brief.[3]

MACTEC's argument fails. The standard stated in 9 U.S.C. § 10(a)(3) is whether the arbitrator was "guilty of misconduct . . . in refusing to hear evidence pertinent and material to the controversy." 9 U.S.C. § 10(a)(3). Misconduct requires more than legal error, it must be "bad faith or so gross as to amount to affirmative misconduct?' *United Paperworkers Intl Union v. Misco, Inc.*, 484 U.S. 29, 40 (1987). The arbitrator's granting of the motion to strike and exclusion of evidence of patent misuse was not an act of bad faith or affirmative misconduct. The arbitration proceedings were governed by a scheduling order. MACTEC filed a "Specification of Answer and Defenses" on April 1, 2002, the deadline for respondent's specification of claims and counterclaims.[4] MACTEC's attempt to interpret the scheduling order as imposing no dead-

---

[3] MACTEC does not complain of the arbitrator's ruling with respect to patent invalidity. It argues only that the arbitrator improperly excluded evidence of patent misuse. Counsel for MACTEC argued at the arbitration hearing that patent misuse was raised not as an affirmative defense, but was relevant to construction of the contract. (Tr. at 11:14-14:22, App. 0146).

[4] The title page of MACTEC's specification of answers and defenses is Exhibit 9 to the defendant's opposition brief. The full answer is not included in the exhibit. The arbitration record submitted to the court does not include that filing.

line for the filing of its answer and defenses is disingenuous. By filing a Specification of Answer and Defenses, MACTEC demonstrated that it understood the requirements of the scheduling order.

"[W]hen the subject matter of the dispute is arbitrable, 'procedural' questions which grow out of the dispute and bear on its final disposition are left to the arbitrator." *Misco*, 484 U.S. at 40. The arbitrator acted within his authority in prohibiting MACTEC from raising untimely defenses. In addition, Article 12.1 of the 1994 Stock Purchase Agreement provides for the arbitration of any controversy related to the agreement, except "any disputes relating to patent validity or infringement." The arbitrator acted within his authority in determining that issues of patent law were not arbitrable. The arbitrator did not violate 9 U.S.C. § 10(a)(3) by granting the motion to strike.

2. Patent Misuse

The court may vacate an arbitration award which violates public policy. *See Denver & Rio Grand Western R.R. Co.*, 119 F.3d at 849; *Seymour v. Blue Cross/Blue Shield*, 988 F.2d 1020, 1023 (10th Cir. 1993). MACTEC claims that the award violates public policy and Supreme Court precedent prohibiting patent misuse.

"[I]n determining whether an arbitration award violates public policy, a court must assess whether the specific terms contained in the contract violate public policy, by creating an explicit conflict with other laws and legal precedents, keeping in mind the admonition that an arbitration award is not to be lightly overturned" *Seymour*, 988 F.2d at 1024 (internal quotations and citations omitted). The doctrine of patent misuse was defined by the United States Supreme Court in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135-41 (1969). In *Zenith Radio*, the Supreme Court held it unlawful for a patentee to condition the grant of a patent

license on payment of royalties for products which do not use the teaching of the patent. In *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964), the United States Supreme Court held that patentee cannot use the monopoly power of a patent to exact royalty payments beyond the term of the patent.

MACTEC contends that the award violates public policy against patent misuse by requiring MACTEC to pay Dr. Gorelick for wells installed using public domain technology and by requiring it to make payments after the Stanford license was terminated MACTEC's arguments regarding patent misuse are without merit.

A key factor in patent misuse is whether the patent owner "conditioned" the grant of the patent license upon payment of royalties on products which do not use the teaching of the patent. *See Zenith Radio Corp.*, 395 U.S. at 135; *Glen Mfg., Inc. v. Perfect Fit Indus., Inc.*, 420 F.2d 319, 321 (2d Cir. 1969). "Conditioning" occurs "where the patentee refuses to license on any other basis and leaves the licensee with the choice between a license so providing and no license at all." *Id.* When the parties agreed to the 1998 Revision, Dr. Gorelick could not have presented MACTEC with a "take it or leave it" choice, because he did not own the '503 patent or control the licensing rights. MACTEC already had the license.

MACTEC incorrectly characterizes Dr. Gorelick as the patentee. Stanford has the patent. When MACTEC terminated the Stanford license, it did so by notifying Stanford University, not Dr. Gorelick. During the arbitration hearing, counsel for MACTEC acknowledged, "The license agreement was with Stanford so [MACTEC] notified Stanford. I'm not sure what it would have done to tell Mr. Gorelick because he wasn't the owner of it." (Tr. at 55:13-19, App. 0167).

Furthermore, the doctrine of patent misuse is not aper se prohibition on the payment of royalties for both patented and

unpatented methods. Such payments are permitted, for example, where they provide a convenient measure of the value of the license. *See Engel Indus., Inc. v. Lockformer Co.*, 96 F.3d 1298, 1408 (Fed. Cir. 1996). In *Engel*, the United States Court of Appeals for the Federal Circuit stated, "It is clear from *Zenith Radio* that the voluntariness of the licensee's agreement to the royalty provision is a key consideration." *Id. See also Glen Mfg., Inc. v. Perfect Fit Indus., Inc.*, 324 F. Stipp. 1133, 1137 (S.D. N.Y. 1971) ("If the reason for employing a royalty provision which is based on total sales is the mutual convenience of both the parties rather than as leverage from which a licensor can extract payment for the manufacture of unpatented items, there is no patent misuse.")

MACTEC's own statements and conduct show that MACTEC voluntarily offered to pay Dr. Gorelick based on a formula that included payment for wells installed using technology not covered by the '503 Patent. MACTEC—not Dr. Gorelick—initiated the proposal to modify its payment obligation to Dr. Gorelick. There is no question that MACTEC did so to facilitate its business expansion and the marketing of remediation technologies other than the NoVOCs technology.[5] The doctrine of patent misuse does not prohibit MACTEC from voluntarily agreeing to pay Dr. Gorelick for more than the use of NoVOCs technology.

The doctrine of patent misuse is also inapplicable because the agreement is not a licensing agreement. The 1994 Stock Purchase Agreement, as amended, was an agreement for the

---

[5] MACTEC also had concerns that use of either the NoVOCs or IEG technology might infringe on the other. At the arbitration hearing, counsel for MACTEC explained, "So it's a pretty straightforward thing, and it's a pretty smart thing to do. If you're having a fight about one patent infringing another, you simply join forces, and you eliminate those disputes." Tr. at 35:25-36:4. MACTEC does not assert, however, that Dr. Gorelick threatened litigation to coerce it to modify the payments to him.

purchase of the stock of NoVOCs, Inc. Control of the Stanford license was transferred as a result of the stock purchase, but the transaction was a stock purchase, not a licensing agreement.

3. The Arbitrator's Exclusion of Evidence of Intent

MACTEC also argues that the arbitrator violated 9 U.S.C. § 10(a)(3) and demonstrated manifest disregard of the law by excluding evidence regarding the parties' intended meaning of the contract. "Manifest disregard of the law" is a judicially created exception to the general rule that an arbitrator's erroneous interpretations or applications of the law provide no grounds for vacating an arbitration award. *See Bowen*, 254 F.3d at 932.

After opening statements, the arbitrator requested oral argument on the issue of whether the 1998 Revision was ambiguous with respect to the disputed contract terms. Citing *Pacific Gas and Elec. Co. v. G. W. Thomas Drayage & Rigging Co.*, 442 P.2d 641 (Cal. 1968), counsel for MACTEC argued that California law requires consideration of extrinsic evidence as part of the determination of whether an agreement is ambiguous. MACTEC also argued that under California law the parties' subsequent conduct is relevant to the issue of ambiguity, citing *Automobile Salesmen's Union v. Eastbay Motor Car Dealers, Local 1095*, 10 Cal. App. 3d 419, 424 (1970) ("The ambiguity can be created where the parties have demonstrated by their actions and performance what the contract meant to them, even though the words, standing alone, might have a different meaning to the court.") MACTEC's hearing brief included these same arguments and detailed the facts it claimed supported its interpretation of the contract.

The arbitrator ruled that evidence of intent was inadmissible because he found the express language of the contract to be clear and unambiguous:

> THE ARBITRATOR Okay. The basic problem that I have, as the arbitrator, is to decide whether or not this contract is ambiguous. If it is ambiguous, then evidence regarding the intent or supposed intent or probable intent of the parties at the time that they entered into the contract would be admissible. And if that evidence were to come in, it is possible that this arbitrator or a court could find an intention different than that clearly expressed.
>
> The fact of the matter is, it's just as plain as the nose on your face. The amendment dated May 1, 1998 starts out and it says, "The purpose, of this agreement is to restructure the payments to Dr. Gorelick for the NOVOCS common stock under the original agreement. This agreement is aimed at expanding the definition of remediation well as used in the original agreement so that it covers all types of remediation wells, rather than wells merely employing the NOVOCS technology." I don't think that I could write a clearer statement.
>
> * * *
>
> Now, it strains credulity for me to try to contrive any other meaning out of this. . . .
>
> If the parties, including MACTEC, who signed on each page—Scott State put his initials on each page—if he had intended that it apply only to to NOVOCS or UVB technology wells, that's all he had to say. The parties clearly easily could have expressed a limitation on the definition, but they didn't.
>
> * * *
>
> And I specifically find that ambiguity is only inserted in this case by a strained interpretation, which does not

> make common sense. The language says, Boys and Girls, Ladies and Gentlemen, we've got a contract. We want to change that contract. We want to include wells other than just NOVOCS wells; therefore, we'll define it as any well. And whether it's constructed by or for, MACTEC owes it.
>
> Now, I'm not saying that there isn't any—that there is not other evidence that I will not receive. I am saying, however, that it is inappropriate to introduce any extrinsic evidence as to intent.

Tr. at 96:25-97:21; 98:20-24;100:18-101:6, App. 0167-69.

The arbitrator's exclusion of evidence of intent does not demonstrate manifest disregard of the law. California law generally provides the language of a contract is to govern its interpretation, and the intention of the parties is to be ascertained from the writing alone, unless it is ambiguous. Cal. Civ. Code § 1638, 1639 (Deering 1994 & Supp. 2002); *see also* Cal. Code Civ. P. § 1856 (Deering 1994 & Supp. 2002) (Parole evidence rule). Under *Pacific Gas*, the determination of whether a contract is ambiguous requires a preliminary consideration of evidence such as the circumstances surrounding the making of the agreement, the object, nature, and subject matter of the agreement. 442 P.2d at 641. If the court decides that the language of the contract is fairly susceptible to either one of two interpretations contended for, extrinsic evidence relevant to prove either of such meanings is admissible. *See id.* However, "if the evidence offered would not persuade a reasonable man that the instrument meant anything other than the ordinary meaning of its words, it is useless." *Producers Dairy Delivery Co. v. Sentry Ins. Co.*, 718 P.2d 920, 925 (Cal. 1986); *see also Brinton v. Bankers Pension Serv., Inc.*, 76 Cal App. 4th 550, 560 (1999) ("Extrinsic evidence is admissible to explain the meaning of a contract only where it is relevant to prove a meaning to which the language of the instrument is reasonably susceptible.")

Manifest disregard of the law is defined by the Tenth Circuit Court of Appeals as "willful inattentiveness to the governing law." *Bowen*, 254 F.3d at 932, quoting *ARW Exploration Corp.*, 145 F.3d at 1463. "Requiring more than error or misunderstanding of the law, . . . a finding of manifest disregard means the record will show the arbitrators knew the law and explicitly disregarded it." *Id.*, citing *Prudential-Bache Sec., Inc. v. Tanner*, 72 F.3d 234, 240 (1st Cir.1995). *See also Jenkins v. Prudential-Bache Sec., Inc.*, 847 F.2d 631, 634 (10th Cir. 1988). The arbitration record does not show that the arbitrator intentionally disregarded the law. The fact that the arbitrator excluded evidence of intent after listening to MACTEC's legal argument does not demonstrate manifest disregard of the law. MACTEC has shown only that the arbitrator may have misapplied the law, but an arbitrator's misinterpretation or misapplication of the law is not grounds for vacating an arbitration award. *See Bowen*, 254 F.3d at 932.

The arbitrator found that the contract was not reasonably susceptible to more than one meaning. The parties agreed to be bound by the arbitrator's interpretation of the contract.

> Because the parties have contracted to have disputes settled by an arbitrator chosen by them rather than by a judge, it is the arbitrator's view of the facts and of the meaning of the contract that they have agreed to accept. Courts thus do not sit to hear claims of factual or legal error by an arbitrator as an appellate court does in reviewing decisions of lower courts.

Misco, 484 U.S. at 37-38; *see also Jenkins*, 847 F.2d at 635. "[A]s long as an honest arbitrator is even arguably construing or applying the contract in acting within the scope of his authority, the fact that a court is convinced that he committed serious error does not suffice to overturn his decision." *Eastern Assoc. Coal Corp. v United Mine Workers*, 53.1 U.S.

57, 62 (2000) (internal quotations and citations omitted); *Misco*, 484 U.S. at 38.

"An arbitrator enjoys wide latitude in conducting an arbitration proceeding." *Hoteles Condado Beach v. Union de Tronquistas Local 901*, 763 F.2d 34, 38 (1st Cir. 1985). Judicial review of an arbitrator's evidentiary determinations is limited to whether the procedure was fundamentally unfair. *See Tempo Shain Corp. v. Bertek, Inc.* 120 F.3d 16, 20 (2d Cir. 1997). "A federal court may vacate an arbitration award only if the arbitrator's refusal to hear pertinent and material evidence prejudices the rights of the parties to the arbitration proceedings." *Hoteles Condado Beach*, 763 F.2d at 40.

No fundamental unfairness occurred in this arbitration proceeding. MACTEC presented its legal arguments and described the supporting facts in its extensive hearing brief (which the arbitrator acknowledged reading) and during opening statements. With respect to the meaning of "remediation wells," MACTEC argued that the contract's use of that term in specific paragraphs conflicted with the express definition of the term, and therefore the meaning of that term should be discerned from evidence other than the express definition. (Tr. at 59:6 - 63:5, App. 0158-59; MACTEC hr'g br. at pp. 12-16, App. 0019-23). MACTEC's proposed interpretation of "by, and for, MACTEC," was based primarily on dictionary definitions and grammatical distinctions. (Tr. at 48:2, App. 0155; MACTEC hr'g br. at pp. 33-35, App. 0040-42). MACTEC was not deprived of the opportunity to present its position, the arbitrator simply rejected MACTEC's linguistic arguments based on his reading of the contract. The arbitrator observed, "If that was an imprudent contract from the standpoint of [MACTEC], that may be the case. But it is a contract, and it was signed by the parties, and it's still in existence, and it controls." (Tr. at 309:12-14, App. at 0240).

There was no corruption, partiality, bad faith, or misconduct on the part of the arbitrator, and the arbitrator acted

within the scope of his authority. The arbitrator's exclusion of evidence of intent provides no grounds for vacating the arbitration award.

4. The Award

The court may vacate an arbitration award "where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made." 9 U.S.C. § 10(a)(4). An arbitrator is confined to interpretation and application of the agreement and an award must draw its essence from the contract. *See United Steelworkers v. Enterprise Wheel & Car Co.*, 363 U.S. 593, 597 (1960). An arbitration award will not be set aside, however, unless it can be said with positive assurance that the contract is not susceptible to the arbitrator's interpretation. *See Jenkins*, 847 F.2d at 635.

MACTEC contends the arbitrator exceeded his powers by ruling that Article 3.4 of the Stock Purchase Agreement requires MACTEC to maintain records and provide Dr. Gorelick with reports of any remediation wells, rather than wells using only NoVOCs technology. This argument fails. The arbitrator did not rewrite the contract. He construed the disputed term, "remediation wells," and interpreted Article 3.4 in a manner consistent with that construction. The award draws its essence from the contract.

MACTEC also claims that the arbitrator exceeded his powers by interpreting the term "by, and for, MACTEC" to mean "by MACTEC, its contractors, agents, affiliates, or other entities controlled by MACTEC." This argument is also without merit. The contract is susceptible to the arbitrator's interpretation.

MACTEC also argues that the arbitrator violated section 10(a)(4) by finding that the contract had not been terminated and is not terminable at will Article 3.3 of the 1994 Stock Purchase Agreement provided that payments to Dr. Gorelick

would continue for a period of twelve years following the resumption of payments as described in Article 3.2.[6] The 1998 Revision replaced Articles 3.1 through 3.3 of the Stock Purchase Agreement, modified the payment formula, and eliminated the twelve-year period. No express term of duration was stated in the 1998 Revision. Thus the 1994 Stock Purchase Agreement, as amended, provides for installment payments to Dr. Gorelick for an indefinite term. In the arbitration proceeding, MACTEC asserted that its payment obligation to Dr. Gorelick had been terminated by its termination of the Stanford license.[7] MACTEC also argued that the contract was terminable at will and contended that it had terminated the contract by notification to Dr. Gorelick.

The arbitrator rejected MACTEC's termination arguments, and his conclusions are not contrary to the contract. Under the original 1994 Stock Purchase Agreement, MACTEC's termination of the Stanford license and discontinuation of the use of NOVOCs technology would have ended the source of the installment payments to Dr. Gorelick. By entering into the 1998 Revision, however, MACTEC agreed to pay Dr. Gorelick according to a formula that included more than its use of the NoVOCs technology. Under the revised agreement, MACTEC's termination of the Stanford license did not automatically end MACTEC's payment obligation to Dr. Gorelick.

A contract contemplating continuing performance for an indefinite time is generally considered terminable at will. *See*

---

[6] Articles 3.1, 3.2, and 3.3 of the 1994 Stock Purchase Agreement provided that the installment payments to Dr. Gorelick were to continue until he had received approximately $1.7 million; payments to him would then cease until EG&G had earned approximately $3.3 million from the use of NoVOCs technology calculated according to the Article 3.2 formula. After EG&G had been repaid $3.3 million, the installment payments to Dr. Gorelick would resume for a period of 12 years.

[7] In closing arguments, counsel for MACTEC focused solely on the issue of termination of the contract. *See* Tr. at 364:15-373:13, App. 0254-56.

Zimco Restaurants, Inc. v. Bartenders and Culinary Workers Union, 331 P.2d 789, 791 (Cal. Ct. App. 1958). A payment obligation cannot be avoided, however, by terminating a contract that has been performed by the other party. *See, e.g., Franklin v. Appel*, 8 Cal. App. 4th 875, 894 (1992) (fee agreement not terminable by client after attorney provided the requested services). Dr. Gorelick had performed his obligations under the Stock Purchase Agreement by delivering the stock, and his performance under the 1998 Revision was complete when he agreed to accept a modification of the payment formula. The arbitrator did not violate 9 U.S.C. § 10(a)(4) by concluding that the contract was not terminable at will and had not been terminated

MACTEC now argues that the arbitrator failed to make a definite award because the award provides for future payments. Under California law, a contract without a definite duration is not fatally defective. *See Consolidated Theatres, Inc. v. Theatrical Stage Employees Union*, 447 P.2d 325, 335 (Cal. 1968). Where no duration is specifically expressed in the agreement, a term of duration may be implied when the nature of the contract and surrounding circumstances afford a reasonable ground for such implication. *See id.* (implied term of contract for employment of stagehands for live performances was that period during which the theater presented live stage performances). Although the arbitrator's reasoning is not explained in the award, the import of the award is that the obligation continues as long as remediation wells are installed by MACTEC or on its behalf.[8] The arbitrator made a final and definite award upon the subject matter submitted.

Based on the foregoing, it is

ORDERED that plaintiff/petitioner's application to vacate the arbitration award is denied; it is

---

[8] Dr. Gorelick has represented to the court that the payment obligation would last only during his lifetime. (Def.'s reply br., p. 27, Oct. 28, 2002).

FURTHER ORDERED that defendant's motion to confirm the arbitration award is granted; it is

FURTHER ORDERED that the defendant's motion to authorize limited discovery is denied as moot and it is

FURTHER ORDERED that within twenty days from the date of this order, defendant shall submit a proposed form of judgment.

Dated: May 27th, 2003

BY THE COURT:

/s/ Richard P. Matsch
RICHARD P. MATSCH, Judge

Civil Action No. 02-M-1319 (CBS)

I certify that I mailed a copy of the attached Order entered by Judge Richard P. Matsch on May 27, 2003, to the following:

Magistrate Judge Shaffer
Russell O. Stewart
Faegre & Benson
D. C. Box No. 21

John D. McCarthy
Holme Roberts & Owen LIP
D. C. Box No. 7

Dated: May 27, 2003

JAMES R. MANSPEAKER, CLERK
By: Glenna Drake
GLENNA DRAKE, Secretary

APPENDIX C

AMERICAN ARBITRATION ASSOCIATION
Commercial Arbitration Tribunal

In the Matter of the Arbitration between:

Re: 77 198 00223 01 SUBR
Steven M. Dr. Gorelick and
MACTEC, Inc.

Case Administrator: Suzanna L. Brewster

Arbitrator: Hon. Kenneth E. Barnhill

AWARD OF ARBITRATOR

I, THE UNDERSIGNED ARBITRATOR, having been designated in accordance with the arbitration agreement entered into between the above-named parties and dated May I, 1998, and having been duly sworn, and having duly heard the proofs and allegations of the Parties, do hereby, AWARD, as follows:

Hearing was conducted on June 10, and June 11, 2002, before the undersigned Arbitrator. The parties submitted Prehearing briefs, several days in advance of the hearing. At the commencement of the hearing, Dr. Steven M. Gorelick, hereinafter referred to as "Dr. Gorelick", filed a Motion to Strike two new defenses raised for the first time by MACTEC, Inc., hereinafter referred to as "MACTEC", in its prehearing brief. This Motion was granted on the grounds that the issues had not been asserted in MACTEC's Specification of Answers and Defenses filed April I, 2002, and for the reason that issues regarding validity or illegality of patent and contracts related thereto are not involved in this matter.

The Arbitrator heard testimony, examined exhibits and listened to arguments of counsel. Being fully advised, the Arbitrator finds:

1. The parties entered into an agreement on May 1, 1998, which expanded the definition of remediation wells as used in the original stock purchase agreement so that it covers "all types of remediation wells rather than wells merely employing the Novoc's technology." Remediation Wells were further defined to be "any hole that (i) has been dug, drilled or otherwise installed, or (ii) which existed and has been converted in use, and that is employed or intended for the partial or complete removal or treatment of subsurface contaminants."

2. The agreement further provided that Dr. Gorelick was to be paid One Thousand Five Hundred Dollars ($1,500) per well for each Remediation Well installed by, or for, MACTEC for wells sold through the LLC and that Dr. Gorelick was to be paid Three Thousand Dollars ($3,000) for each Remediation Well installed by, or for, MACTEC for wells sold outside of the LLC.

3. The language of the Agreement is plain, clear and unambiguous.

4. The documents and exhibits introduced as evidence in this matter, together with the testimony, clearly establish that Remediation Wells installed by MACTEC Environmental Technologies Company, LLC., Harding Lawson Associates, or Harding ESE were installed for or on behalf of MACTEC and that all such wells were installed outside the LLC (the LLC having been dissolved or terminated) thereby triggering the $3,000 per well obligation.

5. MACTEC is obligated to pay Dr. Gorelick for the installation of Remediation Wells in the future by MACTEC, its contractors, agents, affiliates or other entities controlled by MACTEC. The obligation has not been terminated.

The contract between MACTEC and Dr. Gorelick is not terminable at will.

6. MACTEC must maintain records of installation of Remediation Wells by it, its agents, contractors or entities controlled by MACTEC, and such records must be made available for inspection and MACTEC shall report thereon to Dr. Gorelick in accordance with the provisions of Article 3.4 of the Stock Purchase Agreement.

7. The damage calculation made by Dennis K. Brown is appropriate and is based upon reasonable, conservative methodologies and accurate calculations. It was unrefuted.

Wherefore, an award is entered in favor of Dr. Gorelick and against MAUI EC in the amount of Four Million, Four Hundred Forty-Nine Thousand, Nine Hundred Sixty Dollars and zero cents ($4,449,960.00). In addition, MAC I EC must reimburse Dr. Gorelick for all reasonable costs of any independent audit conducted in accordance with Section 3.5 of the Stock Purchase Agreement. MACTEC must maintain records of all Remediation Wells in accordance with the findings set forth in paragraph 6 hereinabove.

The parties shall each pay their own attorney's fees and expert witness fees.

The administrative fees and expenses of the American Arbitration Association ("the Association") totaling Eleven Thousand Three Hundred Dollars ($11,300.00) shall be borne as incurred by the parties. The compensation and expenses of the Neutral totaling Seven Thousand, Six hundred Eighty Seven Dollars and Fifty cents ($7,687.50) shall be borne equally.

This Award is in full settlement of all claims submitted to this Arbitration. All claims not expressly granted herein are hereby, denied.

Date: July 10, 2002 /s/ Kenneth E. Barnhill
Honorable Kenneth E. Barnhill

(2)

No. 05-926

IN THE

Supreme Court of the United States

MACTEC, INC.,
Petitioner,

v.

STEVEN GORELICK,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

BRIEF IN OPPOSITION

SETH P. WAXMAN
Counsel of Record
JONATHAN E. NUECHTERLEIN
TODD C. ZUBLER
WILMER CUTLER PICKERING
HALE AND DORR LLP
2445 M Street, N.W.
Washington, D.C. 20037
(202) 663-6000

QUESTIONS PRESENTED

1. Whether parties to a contract may minimize litigation expenses by agreeing to only one level of judicial review of arbitration awards—thereby waiving appellate review—just as parties routinely waive appellate review of many other types of district court decisions.

2. Whether the Tenth Circuit correctly interpreted a contractual term providing that "[j]udgment upon the award rendered by the arbitrator shall be final and nonappealable" to mean that, after the district court issued a judgment on the arbitrator's award, that judgment was indeed nonappealable—*i.e.*, neither party could appeal the district court's judgment to the court of appeals.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED	i
TABLE OF AUTHORITIES	iv
OPINIONS BELOW	1
STATEMENT	1
REASONS FOR DENYING THE WRIT	4
CONCLUSION	10

TABLE OF AUTHORITIES

CASES

Page(s)

BMW of North America, Inc. v. *New Motor Vehicle Board*, 209 Cal. Rptr. 50 (Ct. App. 1984) 9
Bowen v. *Amoco Pipeline Co.*, 254 F.3d 925 (10th Cir. 2001) 7
Brinton v. *Bankers Pension Services, Inc.*, 90 Cal. Rptr. 2d 469 (Ct. App. 1999) 9
Brown v. *Gillette Co.*, 723 F.2d 192 (1st Cir. 1983) 4
Chicago Typographical Union v. *Chicago Sun-Times, Inc.*, 935 F.2d 1501 (7th Cir. 1991) 7
Gateway Technologies, Inc. v. *MCI Telecommunications Corp.*, 64 F.3d 993 (5th Cir. 1995) 7
Goodsell v. *Shea*, 651 F.2d 765 (C.C.P.A. 1981) 5
Hewlett-Packard Co. v. *Berg*, 61 F.3d 101 (1st Cir. 1995) 6
Harris v. *Parker College of Chiropractic*, 286 F.3d 790 (5th Cir. 2002) 6
Hill v. *Norfolk & Western Railway*, 814 F.2d 1192 (7th Cir. 1987) 9
Hoeft v. *MVL Group, Inc.*, 343 F.3d 57 (2d Cir. 2003) 8
In re Lybarger, 793 F.2d 136 (6th Cir. 1986) 4
Kyocera Corp. v. *Prudential-Bache Trade Services, Inc.*, 341 F.3d 987 (9th Cir. 2003) 6, 7
New England Utilities v. *Hydro-Quebec*, 10 F. Supp. 2d 53 (D. Mass. 1998) 7
Pratt v. *Gursey, Schneider & Co.*, 95 Cal. Rptr. 2d 695 (Ct. App. 2000) 5
Prescott v. *Northlake Christian School*, 369 F.3d 491 (5th Cir. 2004) 7
Producers Dairy Delivery Co. v. *Sentry Insurance Co.*, 718 P.2d 920 (Cal. 1986) 9
Roadway Package System v. *Kayser*, 257 F.3d 287 (3d Cir. 2001) 7
Schoch v. *info USA, Inc.*, 341 F.3d 785 (8th Cir. 2003) 7

TABLE OF AUTHORITIES—Continued

Page(s)

Syncor International Corp. v. *McLeland*, No. 96-2261, 1997 WL 452245 (4th Cir. Aug. 11, 1997) 7
UHC Management Co. v. *Computer Sciences Corp.*, 148 F.3d 992 (8th Cir. 1998) 7
U.S. Consolidated Seeded Raisin Co. v. *Chaddock & Co.*, 173 F. 577 (9th Cir. 1909) 5

STATUTES

9 U.S.C. § 16 5
28 U.S.C. § 1291 6

OTHER AUTHORITIES

15A Charles Alan Wright et al., *Federal Practice and Procedure* § 3901 (2d ed. 1992) 4

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-18a) is reported at 427 F.3d 821. The order and opinion of the district court (*id.* at 19a-40a) and the arbitrator's award (*id.* at 41a-43a) are unreported.

STATEMENT

This case involves a contractual dispute between Petitioner MACTEC, Inc. ("MACTEC"), a corporation with over $500 million in annual revenues, and Respondent Steven Gorelick, an inventor and geology professor at Stanford University. Since 2001, when MACTEC refused to make installment payments due to Gorelick under their contract, MACTEC has waged a five-year war of financial attrition against Gorelick. MACTEC's petition, in which it seeks judicial nullification of its contractual promise to conclude that war of attrition in the district court, is a continuation of that effort and without merit. It should be denied.

1. Gorelick is a professor of Geological & Environmental Sciences at Stanford University and the co-inventor of a water-treatment technology known as the "NoVOCs Technology." In 1997, after a series of business transactions, Gorelick and MACTEC became parties to a Stock Purchase Agreement ("Agreement") that obligates MACTEC to pay Gorelick installment payments based on a measure of business performance—the number of "remediation wells" that MACTEC installed using the NoVOCs Technology. The Agreement provides that all disputes relating to it are to be resolved by arbitration, with only one level of judicial review—*i.e.*, in federal district court. Specifically, Section 12.2 of the Agreement provides that "[j]udgment upon the award rendered by the arbitrator shall be final and nonappealable and may be entered in any court having jurisdiction thereof."

In 1998, MACTEC and Gorelick agreed to an amendment (the "Revision") to the Agreement under which Gorelick agreed to accept a different measure of business performance for the installment payments. Specifically,

Gorelick accepted a much lower amount per well ($1,500 rather than $3,000) in exchange for MACTEC's agreement to pay that amount for *any* type of well installed—not just wells using the NoVOCs Technology. The Revision states that "[t]his Agreement is aimed at expanding the definition of a remediation well as used in the Original Agreement so that it covers *all* types of remediation wells rather than wells merely employing the NoVOCs technology." CA App. 703 (emphasis added). The Revision also defines "Remediation Well" broadly as "*any* hole" that is "employed or intended for the partial or complete removal or treatment of subsurface contaminants," without reference or limitation to any particular type of technology used. *Id.* at 704 (emphasis added).

In 2001, however, MACTEC refused to pay Gorelick for all of the wells it installed, asserting that, despite its terms, the Revision should be construed to cover only certain types of remediation wells. In June 2002, the parties arbitrated the dispute. Concluding that MACTEC's proposed interpretation of the contract "strain[ed] credulity" (CA App. 229), the arbitrator agreed with Gorelick and awarded him over $4.4 million in damages (Pet. App. 43a).[1]

2. In July 2002, MACTEC filed a petition in the district court to vacate the arbitration award under the Federal Arbitration Act ("FAA") on two primary grounds: (1) the Revision required payment for only certain types of wells,

---

[1] MACTEC asserts (Pet. 2) that it wished to present "written evidence showing Gorelick's acquiescence . . . MACTEC's construction of the Revision." There was no such "evidence" in the first place. The "evidence" to which MACTEC refers is Gorelick's acceptance of payment for the artificially limited category of wells that MACTEC had unilaterally deemed the sole source of its payment obligations. Gorelick did not "acquiesce" in MACTEC's nonpayment for other wells, for MACTEC had concealed that it was installing those other wells. When Gorelick found out about them, he immediately demanded payment. Also, despite its contrary assertion (Pet. 2), MACTEC offered no evidence concerning its profit per well; the figure it cites was made up from whole cloth and introduced for the first time in the court of appeals.

and (2) the Revision and award constituted "patent misuse" and therefore were unenforceable. Two weeks later, MACTEC escalated its legal campaign by filing a second action in the district court seeking a declaratory judgment that the Revision and award constituted patent misuse—the identical argument MACTEC had raised in its first action under the FAA. By filing the second action, MACTEC apparently hoped to evade (1) the deferential review of arbitration awards required by the FAA, (2) the arbitrator's finding that MACTEC had waived its patent misuse defense, and (3) the nonappealability provision in the Agreement that prohibited any appeal from the district court's judgment in MACTEC's first action. In May 2003, the district court confirmed the arbitration award, characterizing MACTEC's arguments as "disingenuous" and "without merit." Pet. App. 29a, 30a, 37a. The district court also dismissed MACTEC's duplicative declaratory-judgment action.

Rather than abide by its contractual agreement not to appeal the district court's judgment on the arbitration award, MACTEC continued to delay paying Gorelick by appealing both the district court's confirmation of the arbitration award and the district court's dismissal of the declaratory-judgment action. The court of appeals, however, rejected all of MACTEC's arguments and dismissed MACTEC's appeal from the district court's judgment on the arbitration award. The court of appeals noted that courts "routinely enforce agreements that waive the right to appellate review over district court decisions." Pet. App. 13a. The court of appeals saw "no reason to treat district court decisions concerning arbitration awards differently than any other kind of district court judgment." *Id.* The court of appeals found that enforcing the nonappealability provision was consistent both with the FAA and the decisions of its sister circuits. *Id.* at 12a-13a. The court of appeals also affirmed the district court's dismissal of MACTEC's duplicative declaratory-judgment action, holding that the action was barred by res judicata in light of the arbitrator's award and the district court's confirmation of that award. *Id.* at 14a-18a.

REASONS FOR DENYING THE WRIT

The decision of the court of appeals is correct and does not conflict with any decision of this Court or of another court of appeals. Further review is not warranted.

1. Despite MACTEC's contrary suggestion, the courts of appeals have not split on the question presented in this case—whether parties may agree to only one level of judicial review of arbitration awards and waive appellate review, just as they routinely waive appellate review of many other types of district court decisions. The Tenth Circuit correctly answered that question in the affirmative, and no court of appeals has held to the contrary.

a. The court of appeals' decision to enforce the parties' nonappeability provision is a straightforward application of the well-accepted principle that parties may agree to waive their right to appeal. Courts routinely enforce agreements not to appeal in contexts outside the FAA, and no one views such agreements as problematic or as interfering with a federal court's authority. As Wright & Miller explain:

> The right [to appeal] can be waived, just as the parties by settlement can waive the right to decision of their dispute by any court and can stipulate to entry of a consent judgment. The most likely occasion for waiver arises from a settlement agreement that calls for resolution of some disputed matter by the district court, coupled with an explicit agreement that the district court decision shall be final and that all rights of appeal are waived. Appeals attempted in violation of such agreements are dismissed.

15A Charles Alan Wright et al., *Federal Practice and Procedure* § 3901 (2d ed. 1992).[2]

---

[2] *See also In re Lybarger*, 793 F.2d 136, 138 (6th Cir. 1986) (appeal dismissed where plaintiff waived right to appeal district court's award of attorney fees); *Brown* v. *Gillette Co.*, 723 F.2d 192, 192-193 (1st Cir. 1983) (appeal dismissed where defendant waived right to appeal district court's

MACTEC's invocation of § 16 of the FAA is without merit. To begin with, MACTEC never cited § 16 below as a jurisdictional basis for its appeal, much less as the keystone of its argument that the nonappealability provision is unenforceable. In any event, even if MACTEC had not waived this argument, § 16 is nothing more than a jurisdictional provision that specifies when courts of appeals do and do not have jurisdiction to hear appeals from orders relating to arbitration.[3] The language in § 16(a) that MACTEC relies

---

award of damages); *Goodsell* v. *Shea*, 651 F.2d 765, 767 (C.C.P.A. 1981) ("The great weight of authority favors enforceability of agreements not to appeal from a decision of a specified tribunal. . . . Such agreements have been honored by barring appellate review proceedings taken in violation of the agreement."); *U.S. Consol. Seeded Raisin Co.* v. *Chaddock & Co.*, 173 F. 577, 579 (9th Cir. 1909) (it is "universally held that, where such an agreement (to waive appeal rights) is made upon a valid and legal consideration, either before or after trial, it will be enforced in an appellate court, and the appeal, if taken, will be dismissed" (citations omitted)); *cf. Pratt* v. *Gursey, Schneider & Co.*, 95 Cal. Rptr. 2d 695, 696 (Ct. App. 2000) (enforcing arbitration agreement containing express waiver of defendants' right to appeal from judgment confirming arbitration award).

[3] Section 16 provides:

9 U.S.C. § 16. Appeals

(a) An appeal may be taken from—

(1) an order—

(A) refusing a stay of any action under section 3 of this title,

(B) denying a petition under section 4 of this title to order arbitration to proceed,

(C) denying an application under section 206 of this title to compel arbitration,

(D) confirming or denying confirmation of an award or partial award, or

(E) modifying, correcting, or vacating an award;

(2) an interlocutory order granting, continuing, or modifying an injunction against an arbitration that is subject to this title; or

(3) a final decision with respect to an arbitration that is subject to this title.

(b) Except as otherwise provided in section 1292(b) of title 28, an appeal may not be taken from an interlocutory order—

upon—that an appeal "may be taken from ... an order ... confirming or denying confirmation of an award or partial award"—merely authorizes the courts of appeals (barring a contrary agreement by the parties) to hear such appeals, for example, even prior to a final judgment and thus even where a confirmation order would not otherwise be appealable under 28 U.S.C. § 1291. *See Hewlett-Packard Co.* v. *Berg*, 61 F.3d 101, 104 (1st Cir. 1995). Congress's grant of jurisdiction to hear such appeals, however, does not require parties to take advantage of that jurisdiction. Nor does it preclude parties from waiving recourse to that jurisdiction, any more than Congress's general grant of appellate jurisdiction in § 1291 precludes parties from waiving such recourse in appeals unrelated to the FAA.

b. The court of appeals' decision does not conflict with any case cited by MACTEC or known to us. Although MACTEC cites a number of decisions as evidence of a supposed "conflict," none of them involved, or has any bearing on, the enforceability of a judicial review clause that, like this one, permits district court review of an arbitration decision but bars further review in the court of appeals.

In virtually all of the supposedly "conflicting" cases cited by MACTEC, the contractual provisions at issue did not attempt to limit the number of judicial review proceedings, but to alter otherwise applicable *standards of review* that a federal court could apply when reviewing an arbitration award.[4] Whether a party may invoke a federal court's

---

(1) granting a stay of any action under section 3 of this title;

(2) directing arbitration to proceed under section 4 of this title;

(3) compelling arbitration under section 206 of this title; or

(4) refusing to enjoin an arbitration that is subject to this title.

[4] *See, e.g.*, *Kyocera Corp.* v. *Prudential-Bache Trade Servs., Inc.*, 341 F.3d 987, 990-991 (9th Cir. 2003) (*en banc*) (arbitration agreement providing that legal conclusions be reviewed *de novo* and factual findings under substantial evidence standard); *Harris* v. *Parker Coll. of Chiropractic*, 286 F.3d 790, 793 (5th Cir. 2002) (arbitration agreement interpreted to require court to "apply a *de novo* standard of review to questions of law");

jurisdiction and then dictate how that court should conduct its review on the merits, however, has little to do with whether parties can limit the number of federal courts whose jurisdiction the parties may invoke in the first place.

In addition, most of the cases MACTEC cites in support of its supposed circuit conflict involved contracts that increased—rather than, as here, decreased—the availability of federal court intervention in the arbitration process. In that respect, too, those cases are off-point. When parties try to expand federal review, courts must consider the danger that increased scrutiny will "jeopardize the very benefits of arbitration, rendering informal arbitration merely a prelude to a more cumbersome and time-consuming judicial review process." *Kyocera*, 341 F.3d at 998. Courts also have expressed concern that expanded review will "reduce[] arbitrators' willingness to create particularized solutions" based on their "specialized experience and knowledge" because of "fear the decision will be vacated by a reviewing court." *Bowen* 254

Roadway Package Sys. v. *Kayser*, 257 F.3d 287, 292 (3d Cir. 2001) ("[P]arties may agree that judicial review of an arbitrator's decision will be conducted according to standards borrowed from state law."); *Bowen* v. *Amoco Pipeline Co.*, 254 F.3d 925, 933 (10th Cir. 2001) (arbitration agreement providing that award be reviewed to determine whether "supported by the evidence"); *Syncor Int'l Corp.* v. *McLeland*, No. 96-2261, 1997 WL 452245, at *6 (4th Cir. Aug. 11, 1997) (*per curiam*) (arbitration agreement providing for *de novo* review of arbitrator's legal conclusions); *Gateway Techs., Inc.* v. *MCI Telecomms. Corp.*, 64 F.3d 993, 997 (5th Cir. 1995) (arbitration agreement providing for *de novo* review of errors of law); *New England Utils.* v. *Hydro-Quebec*, 10 F. Supp. 2d 53, 61 (D. Mass. 1998) ("Hydro-Quebec argues that this contractual language establishes this Court's standard of review . . . ."); *cf. Prescott* v. *Northlake Christian Sch.*, 369 F.3d 491, 497 (5th Cir. 2004) (remanding case to determine whether parties intended arbitration provision "to expand the scope of judicial review"); *Schoch* v. *InfoUSA, Inc.*, 341 F.3d 785, 789 n.3 (8th Cir. 2003) (reserving question whether parties may contract for *de novo* review of arbitration award); *UHC Mgmt. Co.* v. *Computer Scis. Corp.*, 148 F.3d 992, 997-998 (8th Cir. 1998) (same); *Chicago Typographical Union* v. *Chicago Sun-Times, Inc.*, 935 F.2d 1501, 1505 (7th Cir. 1991) (stating that "federal jurisdiction cannot be created by contract" and courts must apply established standard of review).

F.3d at 936. Limiting judicial review, as here, raises none of those concerns.

The decision below is also entirely consistent with the Second Circuit's holding in *Hoeft* v. *MVL Group, Inc.*, 343 F.3d 57 (2d Cir. 2003), as the court of appeals explained (Pet. App. 12a-13a). In *Hoeft*, the Second Circuit refused to enforce an agreement that made an arbitration award "not subject to any type of review or appeal whatsoever." 343 F.3d at 63. In those circumstances, "a court is asked to enforce an arbitration award without being given the authority to review compliance of that award with the FAA." Pet. App. 13a. In that respect, the contractual provision in *Hoeft* resembled those at issue in the other cases noted above, where the parties invoked a court's jurisdiction and then, in effect, sought to dictate how the court would go about its business. The single-layer-of-review provision in this case presents none of those concerns about the integrity of any court's proceedings. The parties here merely sought a middle ground regarding judicial review—permitting the district court to review fully the arbitrator's award but limiting the cost of litigation by prohibiting any appeal from the district court's judgment.

2. MACTEC's second proffered circuit split (Pet. 24-26) is even more tenuous than its first. MACTEC claims that the Tenth Circuit, when interpreting the term "nonappealable" in the nonappealability provision, applied "federal common law" (Pet. i) rather than the California law that governed the Agreement, thereby placing itself in conflict with the decisions of the Fifth Circuit and this Court. That is incorrect: the court of appeals nowhere invoked federal common law. It cited one prior Tenth Circuit case, *Bowen*, to distinguish the "final and nonappealable" language in this case from the "final" language in *Bowen*. Pet. App. 14a. But the Tenth Circuit did not suggest that it was basing its decision on federal common law, and since the result would have been the same under California law, there is no reason to infer that it did. And MACTEC's claim is without merit in any event. Even if California law could ever permit the in-

troduction of extrinsic evidence to show that "nonappealable" really means "appealable,"[5] MACTEC has waived this point by failing—both in this Court and the court of appeals—to proffer, or even suggest, any evidence to that effect about the meaning of this contract.[6]

* * * * *

MACTEC and Gorelick have arbitrated their case before an arbitrator; MACTEC has sought and received the review of a federal district court; the district court has confirmed the award in favor of Gorelick; and the Tenth Circuit has dismissed MACTEC's appeal. Now MACTEC seeks further review, and further delay, in this Court. This litigation should have ended years ago, and it should end now. "The promise of arbitration is spoiled if parties disappointed by its results can delay the conclusion of the proceeding by groundless litigation in the district court followed by groundless appeal to this court[.]" *Hill* v. *Norfolk & W. Ry.*, 814 F.2d 1192, 1203 (7th Cir. 1987).

---

[5] In fact, California law makes clear that a court need not admit extrinsic evidence unless the evidence proffered shows "a meaning to which the language of the instrument is reasonably susceptible." *Brinton* v. *Bankers Pension Servs., Inc.*, 90 Cal. Rptr. 2d 469, 475 (Ct. App. 1999) (upholding trial court's denial of party's attempt to submit, on summary judgment motion, declarations claiming narrower understanding of agreement); *see also Producers Dairy Delivery Co.* v. *Sentry Ins. Co.*, 718 P.2d 920, 925 (Cal. 1986); *BMW of North Am., Inc.* v. *New Motor Vehicle Bd.*, 209 Cal. Rptr. 50, 57 n.4 (Ct. App. 1984).

[6] Also, MACTEC's own intentions could have no logical relevance to this question, since it was another company, not MACTEC, that agreed to the nonappealability clause in 1994, before MACTEC assumed that company's obligations under the Agreement in 1997.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

SETH P. WAXMAN
Counsel of Record
JONATHAN E. NUECHTERLEIN
TODD C. ZUBLER
WILMER CUTLER PICKERING
HALE AND DORR LLP
2445 M Street, N.W.
Washington, D.C. 20037
(202) 663-6000

FEBRUARY 2006

(3)

No. 05-926

IN THE

Supreme Court of the United States

MACTEC, INC.,

Petitioner,

v.

STEVEN GORELICK,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit

PETITIONER'S REPLY BRIEF

FRANK TRADEWELL DAVIS, JR.
Counsel of Record
BRUCE PERRIN BROWN
MCKENNA LONG & ALDRIDGE LLP
303 Peachtree Street, N.E.
Atlanta, GA, 30308
(404) 527-4000

Attorneys for Petitioner

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

PETITIONER'S REPLY BRIEF[1]

In his Brief in Opposition, Gorelick does not -- and cannot -- dispute that there is a clear, acknowledged and persistent conflict among the courts of appeal on an issue of great importance to the legal and business community: whether pre-dispute agreements may alter the statutory standards for judicial review of arbitration decisions. What Gorelick contends instead is that resolving this case will not resolve the raging conflict below. Each of Gorelick's arguments is without merit, as discussed briefly below.

Initially, unable to contest the worthiness of this case for this Court's review on the legal issue presented, Gorelick attempts to gain sympathy on the facts with a narrative giving his side of the story. Yet the superficial persuasiveness of Gorelick's narrative carries with it an irony that exposes the substantive error in the arbitration and the district court's decision. In trying to explain why it made sense for MACTEC to agree to pay him millions of dollars for technology that is in the public domain, Gorelick is compelled to cite "evidence" that gives some context to the parties' agreement. MACTEC vehemently disputes the existence and import of Gorelick's "evidence,"[2] but for

---

[1] The Rule 29.6 corporate disclosure statement filed with the petition remains accurate.

[2] Gorelick asserts that he "accepted a much lower amount per well ($1500 rather than $3000) in exchange for MACTEC's agreement to pay for any type of well installed – not just wells using the NoVOCS technology." (Brief in Opposition, p. 2). MACTEC, however, was prohibited from presenting evidence that that the deal agreed to was to *double* the types of wells (from one type of well to two types of well (UVB in addition to NoVOCS)) but at the same time *halve* the price per well (from $3,000 to $1,500), keeping the overall anticipated payment amount the same. Under MACTEC's interpretation, the revision to the

(footnote continued on next page)

present purposes Gorelick's narrative proves the point: even without the benefit of specific and controlling California precedent requiring that such evidence always be considered to determine whether the contract is ambiguous,[3] in this case the complexity of the transaction makes a fair hearing impossible unless some evidence is heard on the economic realities of the agreement and the parties' actual intent.

This is not a case challenging the normal deference to be given to arbitration decisions or a challenge to evidentiary rulings on particular pieces of evidence. This is a challenge to the arbitrator's decision not to allow *any* evidentiary hearing on the only substantive issue in the case. This is indeed an extreme case, but, even if it were the more ordinary dispute that Gorelick tries to describe, it would warrant this Court's review for the reasons set forth in the petition and amplified below.

1. Gorelick opens his argument by addressing an entirely different issue than the question presented in this case. Gorelick cites the Wright & Miller treatise and a string of cases for the obvious proposition that post-dispute agreements waiving the right to appeal are uniformly enforceable. This must be the case, of course, or it would be

---

(footnote continued from previous page)

contract resulted in a $1,500 decrease in total compensation due Gorelick; under Gorelick's interpretation, the revision to the contract resulted in a multi-million dollar windfall to Gorelick in payments for technology with respect to which Gorelick has never had, or claimed to have, any intellectual property rights whatsoever.

[3] *Trident Center v. Connecticut General Life Ins. Co.*, 847 F.2d 564, 569 (9th Cir. 1988) (under California law, there is no contract that is "impervious to attack by parol evidence . . . *the court must consider extrinsic evidence of possible ambiguity*") (emphasis added).

nearly impossible to settle any dispute. This Court, however, has long distinguished between post-dispute agreements, which are presumptively enforceable, and pre-dispute agreements, the enforcement of which is far more problematic. *Rodriguez de Quijas v. Shearson/American Exp., Inc.*, 490 U.S. 477, 479 n.* (1989).[4] This case, as with all the other cases involved in the circuit conflict, concerns pre-dispute agreements, not post-disputes agreements like those cited by Gorelick and Wright & Miller.

2. Gorelick next argues that the particular agreement in this case – to eliminate appellate review granted in § 16 of the FAA – is different from the agreements in the other cases in the particular way in which it alters the statutory judicial review procedure. This is true, but it is irrelevant: these cases feature myriad attempts to tinker with the statutory judicial review procedure, but all turn on the same issue: did Congress intend for parties to be able to alter the federal statutory judicial review procedure? There are three possible answers, and only three: a categorical "yes," a categorical "no," and a case-by-case "it depends on the particular kind of

---

[4] In *Rodriguez de Quijas*, this Court overruled *Wilko v. Swan*, 346 U.S. 427 (1953), which had held that *pre-dispute* agreements to arbitrate claims under § 12(2) of the Securities Act of 1933 were void. In overruling *Wilko*, this Court explained:

> The Court [in *Wilko*] carefully limited its holding to apply only to arbitration agreements which are made 'prior to the existence of a controversy.' 346 U.S. at 438 . . . . In contrast, 'courts uniformly have concluded that *Wilko* does not apply to the submission to arbitration of existing disputes.'

490 U.S. at 479 n. *.

agreement." If this Court answers the question with the categorical "yes" or "no," then the resolution of this case will have resolved the conflict once and for all and this case would have been the ideal vehicle to resolve the conflict. In the event this Court takes the case-by-case approach, then this case will have proven superior to any of the other cases because it comes from the Tenth Circuit, the only court that has taken the case-by-case approach. *Compare MACTEC, Inc. v. Gorelick*, 427 F.3d 831 (10th Cir. 2005), *with Bowen v. Amoco Pipeline Co.*, 254 F.3d 925 (10th Cir. 2001).

3. Moreover, there are compelling jurisprudential reasons to reject the case-by-case approach and to reject Gorelick's attempt to distinguish this case on its facts from other cases presenting the identical legal issue. On what possible basis might a court conclude that one agreement altering the statutory prescribed process is better or worse than another? Either the statute should be enforced as written by Congress, or the parties' agreement to the contrary should be enforced. The question is not what process the court believes is best, but which of these competing sources of authority (Congress or private agreement) should be preeminent. The Tenth Circuit's approach introduces a third source of authority -- the court itself. Though in alternating cases the Tenth Circuit is capable of couching its preference in terms of deference to Congress (in *Bowen*) and deference to the agreement of the parties (in this case), the inconsistency in the rationale of the decisions belies the reality that the court is simply enforcing the agreements that it likes and not enforcing the agreements that it does not like. To the Tenth Circuit, even though Congress in the FAA balanced and fixed the role of the courts with respect to the review and approval of arbitration agreements, agreements that reduce the role of the courts from what Congress specified are good and should be

enforced, and agreements that increase the role of the courts are bad and should not be enforced.

Apart from lacking any underlying doctrinal integrity, the case-by-case approach of the Tenth Circuit provides parties and lower courts with no predictable basis upon which to determine in advance whether any given arbitration provision is enforceable. Though MACTEC will argue, based upon the plain language of the statute, that the answer should be a categorical "no," either categorical answer is preferable and more doctrinally consistent than the equivocating and vacuous approach of the Tenth Circuit.

4. Gorelick contends that the agreement in this case does not really alter the statutory judicial review procedures because the appeal provision, Section 16 of the FAA, 9 U.S.C. § 16, does not require parties to appeal, it simply states that parties "may" appeal. This is not persuasive in the least: an agreement providing that the parties "may not" appeal, however, still is directly contrary to the provisions of the FAA stating that the parties "may" appeal.

In sum, a decision by this Court in this case would resolve an important and persistent conflict below and would fit perfectly with recent decisions clarifying the roles of parties, arbitrators and the courts in the important and fast growing field of arbitration. *See Buckeye Check Cashing, Inc.*, No. 04-1265 (Feb. 21, 2006); *Volt Information Sciences, Inc. v. Board of Trustees of Leland Stanford Junior University*, 489 U.S. 468 (1989).

The petition for a writ of certiorari should be granted.

Respectfully submitted,

FRANK TRADEWELL DAVIS, JR.
Counsel of Record
BRUCE PERRIN BROWN
MCKENNA LONG & ALDRIDGE LLP
303 Peachtree Street, N.E.
Atlanta, GA, 30308
(404) 527-4000
(404) 527-4198 Facsimile

Attorneys for Petitioner

March 2006